ADVANCED ACCOUNTS

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A MANUAL OF ADVANCED BOOK-KEEPING AND ACCOUNTANCY FOR ACCOUNTANTS, BOOK-KEEPERS AND BUSINESS MEN

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PREFACE

The object of the present work is to provide the student of book-keeping with a manual, the study of which will fit him for any of the ordinary public examinations in this subject. Complaint has been made in the past that, in order to prepare for an examination, it has been necessary to consult various textbooks, access to which, in many cases, has been difficult. It is believed that the present publication contains considerably more than is necessary for examination purposes, and the student who is fully conversant with all the matters dealt with has no need to fear the result of such a test. Great pains have been taken to include all matters referred to in the syllabuses of the various examining bodies, and, in addition, the requirements of particular examiners have been met to a considerable extent.

Of late years considerable advance has been made in the study of the science of accounts, and many improvements have been introduced. These have all been included in the present volume. Although the principles of double-entry book-keeping are universally accepted, there may be, of course, differences of opinion as to the best methods of applying those principles, and in this connexion it may be pointed out that with some of the methods advocated in the present work, the Editor is not quite in agreement, looking at the matter as he does from the practical point of view. Most of the points, however, are matters of mere detail, where he has sunk his own view in deference to the known opinion of particular examiners, though in the matter of the proving of ledgers by Adjustment Accounts, he regards the Adjustment Accounts in the Nominal Ledger as being the ones which form part of the book-keeping, and in his view those in the Personal Ledgers are written up as a matter of convenience only.

Where several ways of achieving the same result are in vogue, these have, in many instances, been given. It has been thought, also, that the inclusion of the more theoretical methods, as well as the practical methods, will have the effect of making the explanations clearer to the student of the subject. Numerous exercises are given, the answers to which are inserted at the end of the book.

POINTS ON EXAMINATIONS

THE "knowledge" of a subject is not synonymous with the "mastery" of that subject. Examinations in accountancy are held with a view to the measurement of the examinee's "mastery" of the subject. The degree of mastery is gauged by the way in which the acquired knowledge of accountancy has been applied to practical problems set for elucidation.

Retailing the knowledge of the subject in the form of stereotyped answers to questions set does not convey to the examiner the best impression of the examinee's ability.

OBJECT OF THE EXAMINATION.

The really deliberate purpose of an examination is to "prove" the examinee in two main directions, namely, in tests of "executive ability" and "initiative." The examination is the means provided to this end, and examinees are advised to essay the task of an examination in the avowal that an examiner shall receive ample evidence of these valuable qualities.

STUDENT VIEWS OF THE EXAMINATION.

Disconcerting elements, contributing not a little to "examination nerves," are the notions entertained by some candidates that the purposes intended to be served by the examination paper is to expose "how much" or alternatively "how little" the candidate knows of his subject, together with a "pitfall" into which the unwary candidate may ignominiously stumble.

These views minister to loss of confidence, and it is suggested that examinees should refuse to be influenced by such notions, and should recognize that examinations in accountancy are set to bring out the latent powers of independent action.

HINTS TO CANDIDATES.

"Nerves" seems an ailment common to many candidates when confronted with the task of working the examination paper. It will be an aid to composure if an "easy" question be attempted first. Each candidate is happy in the conceit (justifiably so!) that at least one aspect of the vast subject of accountancy is thoroughly mastered. Well, tackle the question which it is thought bears on the phase of the subject so well understood. This task does not call for tense action, it just demands an easy mental effort which, it will be found, reduces the condition of flurry, and creates a sense of confidence and control. There has been an ingrained feeling that the

heavy task of " final accounts " must be attempted first because it is the major question of the test. This view is quite wrong, and its adoption may lead to disaster. Until the tension at first experienced has passed, it is impossible to deal with a question containing so much detail work without the risk of " muddling " and, as an accompaniment, an increased loss of confidence in the ability to succeed on the test.

In dealing with questions requiring " written " answers, it may prove valuable as regards economy of time and clearness of answer to attempt the " graphic " or " chart " method of explanation.

When comparisons or differences are elicited by the questions set, a neat graph, chart, or tabulated statement conveying such results will please an examiner, and yield to him a much more businesslike answer to his question than is conveyed by the essay type of answer.

If the essay form must be given it is advisable to be as terse and as concise as possible.

Finally, take the examination test with a smile. Remember, it is provided to prove your mastery of the subject, and not to expose your lack of ability. Therefore, study to be master of the situation.

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ADVANCED ACCOUNTS

CHAPTER I

BOOK-KEEPING UP TO THE TRIAL BALANCE

Definition of Book-keeping. Book-keeping is the science and art of correctly recording in books of account all those business transactions that result in the transfer of money or money's worth. It may also be defined as the art of recording mercantile transactions in a regular and systematic manner; the art of keeping accounts in such a manner that a man may know the true state of his business and property by an inspection of his books.

Objects of Book-keeping. The objects of book-keeping are two-fold—

1. To have a permanent record of all mercantile transactions.
2. To show the effect of each transaction and the combined effect of all the transactions upon the financial position of the party concerned.

History of Book-keeping. The art in a crude state has existed from very ancient times, but Venice is considered to have been the birthplace of the modern system. In 1494 or 1495, Lucas Pacioli, a Franciscan monk, otherwise known as Lucas de Burgo and Lucas di Borgo, published in Italian the first known treatise on book-keeping. It was entitled *De Computis et Scripturis*, and advocated the use of the **Memorial** (Waste or Memorandum Book), **Journal**, and **Quaderno** (Ledger). Venice, Genoa, and other towns of Italy were the first to practise book-keeping by double entry, which is, therefore, often called the Italian method. Pacioli's work was translated into English by Hugh Oldcastle, and published in London in 1543. James Peele wrote in 1553, a work on *How to keep a Perfect Accompte of Debitour and Creditour*. In 1795 Edward Jones published his *English System of Book-keeping*, which introduced two columns into the Journal instead of one as formerly, the Trial Balance, and the Bought and Sold Day Books as we now know them. Modern additions are the Double Account System, the accounts of Joint Stock Companies, the Tabular System, and Ledger balancing by means of aggregate accounts (Control Accounts) and "Self-balancing" Ledgers.

CAPITAL

Definition. In book-keeping, the Capital of a *business* is the sum total of its assets; and the Capital of the *proprietor* of the

business is the surplus or excess of assets over liabilities. An excess of liabilities over assets is called a **Deficiency.** In the case of a joint stock company, however, Capital is the amount contributed by the shareholders, without taking the assets and liabilities into consideration at all.

Trading Capital consists of the fixed and floating assets.

Fixed Capital comprises all the fixed assets.

Floating or Circulating Capital consists of the floating or circulating assets.

Positive Capital is represented by material assets, such as land, buildings, stock, machinery, etc.

Negative Capital consists in the amount of *credit* that a trading company or firm can obtain.

Money borrowed by means of ordinary loans, mortgages, debentures, bonds, etc., is frequently spoken of as **Loan Capital.** Some accountants, however, consider it loose to describe such a *liability* as *capital.*

Working Capital is the amount that remains for the working or running of a business after the purchase price of the fixed assets has been paid. Thus, if a trader started with a capital of £20,000 and expended £12,000 of it in the purchase of buildings and plant, then the balance of £8,000 would constitute the *working* capital. This term is also applied to the excess of floating assets over floating liabilities.

ASSETS

Definition. Assets are the property and possessions of a business, i.e. its stock, land, buildings, book debts, etc. They are classified according to their nature and are of various kinds—

Fixed Assets are those acquired and held permanently for the purpose of earning income, as, for example, plant and machinery, lease, goodwill, etc.

Floating Assets are those acquired and held temporarily, being intended for resale or subsequent conversion into money, as, for example, stock-in-trade, bills receivable, book debts, etc.

NOTE. The same asset may be either fixed or floating according to the nature of the business. Thus, investments would be a floating asset to a stock-broker, but a fixed asset to an ordinary trader. Machinery would be a fixed asset to an ordinary manufacturer, but a floating asset to a machinery trading company. Horses to a horse-dealer would be a floating asset, but to a cartage contractor a fixed asset. It depends on whether the asset is held merely for the purpose of sale, or is intended to be kept in the business.

Liquid Assets are those that are readily available to discharge liabilities; such as cash; or that can easily be encashed; such as gilt-edged securities, bills receivable, etc.

Wasting Assets are fixed assets that depreciate through wear and tear; as, for example, plant and machinery; those whose value expires with lapse of time; such as patents and leases; also those that become exhausted or consumed through being worked; such as mines, quarries, etc. The expression is more generally applied to the last named.

Fictitious Assets are those that represent intangible expenditure; such as preliminary expenses, a debit balance of Profit and Loss; or value which cannot be realized, as insurance premiums paid in advance, etc.

ACCOUNTS

Definition. An account is a Ledger record, in a summarized form, of all the transactions that have taken place with the particular person or thing specified; as J. T. Brown's Account, Plant Account, Wages Account. There are two main divisions of accounts—

1. **Personal Accounts** comprise both debtors and creditors. Debtors are people who owe money, e.g. persons to whom the firm has sold goods. Creditors are people to whom money is owing, e.g. persons from whom the firm has bought goods.

2. **Impersonal Accounts** include both real and nominal accounts.

(*a*) **Real or Property Accounts** are those that refer to ***assets***; such as plant and machinery, stock-in-trade, cash, etc.

(*b*) **Nominal Accounts** are those that relate to ***gains and losses***; such as discounts, wages, rent, rates, etc.

NOTE 1. Some accounts though *impersonal* in name are really *personal* in signification. For instance, the Capital Account and Drawings Account are personal accounts either of the proprietor of the business or of the partners thereof, who are creditors of the concern for the amount of their capitals, and debtors to the extent of their drawings. An account for outstanding items, though *impersonal* in name, is really a *personal* account, being merely the account of unnamed creditors or debtors.

NOTE 2. Some accounts are both *real* and *nominal*; as, for example, the Sales Account, which is a real account so far as the goods themselves are concerned, but nominal in relation to the gain or loss arising from the sales.

SYSTEMS OF ACCOUNTING

The modern system of book-keeping or accounting in use is known as "double entry."

Double Entry is a system of book-keeping by means of both *personal* and *impersonal* accounts.

Single Entry (in which only *personal* accounts are kept) can scarcely be dignified with the name of a "system," and can only

be described by showing its deficiencies as compared with Double Entry. It is dealt with later.

THEORY OF DOUBLE ENTRY

Two-fold Aspect of Transactions. Every transaction that results in a transfer of money or money's worth involves a two-fold aspect, (*a*) the yielding of a benefit, and (*b*) the receiving of that benefit. It is impossible to think of one without the other; a giver necessarily implies a receiver, and a receiver necessarily implies a giver. The giving and receiving, however, take place between *accounts* and in the *same* set of books. Thus, if furniture is bought from Smith, Furniture Account *receives* and Smith's Account *gives*. Hence, to have a complete record of each transaction, there must be a *double* entry. The one transaction has, therefore, to be booked up *twice*, an entry being made in the receiving account, and a similar entry in the giving account.

Debit and Credit. In order to distinguish the two entries necessary for the complete record of a transaction, the Receiving Account is termed **Debtor**, and the Giving Account is called **Creditor.** The two sides of the ledger account in which each transaction is recorded are likewise arbitrarily distinguished, the left-hand side of the account being termed **debit,** and the right-hand side being designated **credit.** Thus, we see that each transaction involves two entries in the same set of books, a *debit* entry and a *credit* entry; and that every debit must, therefore, have a corresponding credit and vice versa. Upon this foundation has been reared the whole superstructure of modern double-entry book-keeping.

Advantages of Double Entry. These may be enumerated as follows—

1. *A Complete Record of each Transaction.* In double entry not only are personal accounts kept, but impersonal accounts are also opened in order to record all those transactions that involve assets, gains, or losses; as, for instance, the purchase of plant, the payment of wages, the receipt of discount.

2. *Full Information concerning the Business.* The information supplied by the books is not limited to the debtors and creditors as in Single Entry. The impersonal accounts furnish additional information concerning the property and assets of the business, and the various gains and losses.

3. *A Check upon the Arithmetical Accuracy of the Clerical Work.* Since every debit has a corresponding credit, the total debits must at any time equal the total credits. Whether this be so or not is easily ascertained by means of a Trial Balance. Again, the difference between the assets and liabilities on the Balance Sheet must be equal to the balance of the Capital Account in the Ledger.

4. *The Preparation of a Profit and Loss Account and Balance Sheet.* This can be done from the double entry books themselves, as they are self-contained.

NATURE OF LEDGER BALANCES

Debit Balances. The *debit* balances in a Ledger may be classified as either assets or losses. If they denote debts, e.g. accounts receivable, or if they represent tangible expenditure, e.g. property, such as plant, fixtures, etc., they are assets. If they represent intangible expenditure, e.g. mere expenses such as wages, rent, etc., they are losses.

Credit Balances. The *credit* balances that are in a Ledger must be either liabilities or gains. If they denote debts, e.g. accounts payable, they are liabilities; if they represent income, such as discounts received, they are gains.

NOTE. The above distinction is of the utmost importance in the preparation of a Profit and Loss Account and Balance Sheet, as gains and losses are entered in the former, and assets and liabilities in the latter.

BOOKS USED IN BOOK-KEEPING

The books utilized for the purpose of book-keeping fall naturally into two divisions—

1. **Financial Books or Books of Account.** These comprise all the books that are an integral part of the system of book-keeping. They are subdivided into two classes—

(*a*) **Principal Books,** namely, Ledger and Cash Book.

(*b*) **Subsidiary Books,** or books of prime or original entry; such as Purchases Book, Sales Book, Journal, etc.

2. **Statistical or Memorandum Books.** These are books in which are entered the numerous details connected with the business operations; details that cannot conveniently be recorded in the financial books. Examples of these are the Policy Registers of an insurance company, the Cost Books and Stock Books, etc., of a manufacturing firm.

NOTE. The subsidiary books were originally designed as aids or helps (Latin, *subsidium* = help, aid) to the Journal proper, and the totals of the subsidiary books were regularly entered in the Journal. They are now aids or helps to the construction of the Ledger, and are no longer auxiliaries of the Journal in its present modified use.

JOURNAL

Definition. The Journal, or " daily record," as originally used, was a book of prime entry in which transactions were copied, in order of date, from a Memorandum or Waste Book. The entries, as they were copied, were classified into debits and credits so as to facilitate their being correctly posted afterwards in the Ledger.

Journal Superseded by Subsidiary Books. The method of entering every transaction into the Journal was soon found to be cumbersome and tedious, and also to lack facilities for ready reference. First, the cash transactions were omitted and dealt with in another book; then the credit purchases and sales were entered in a separate book; finally, the use of the Journal in its original form became obsolete, and the book itself was superseded by the subsidiary books or books of prime entry. The use of separate books for cash, purchases, and sales, besides being a great time saver, also provides greater facilities for reference. Strictly speaking, however, these books are but modified forms of the Journal proper, though the Cash book may be said to be partly a Journal and partly a Ledger.

Present-day Use of the Journal. In modern counting-houses, the Journal, if in use at all, is kept for the purpose of recording opening and closing entries, transfers, the writing off of bad debts and depreciation, the debiting and crediting of interest, the correction of errors—in short, for such entries as cannot conveniently be made in any of the other books of original entry, or which are not sufficiently numerous to necessitate a special book being devised for them. As, however, all these entries can be made direct from one Ledger account to another, it is quite possible for a set of books to be kept without using a Journal at all. Such a practice cannot, however, be recommended. Transfers should certainly be recorded in the Journal before being made in the Ledger, so as to obviate the danger of one-sided entries, i.e. the entering of a Debit or Credit without the contra entry; for instance, crediting a personal account *By Bad Debts,* and omitting to make the corresponding debit in the Bad Debts Account itself. Such entries, of course, prevent the periodical agreement of the books. Further, the cause of discrepancy between the debit and credit totals of the Trial Balance is, in such cases, very difficult to trace, as calling-over, re-casting, re-balancing, all fail to find it. It often involves the examination of large numbers of ledger accounts, in order to find any entries not ticked. It is a wise precaution, therefore, to insist upon all transfers being made through the medium of the Journal.

Narration. The modern use of the **Journal** requires an explanation at the foot of each entry, in technical language a " narration." Whether a Journal entry involving more than one debit and more than one credit should be preceded by the phrase *Sundries to*

Sundries is a matter on which there is a difference of opinion; but a narration is always necessary unless the item speaks for itself—thus, " Bad Debts *Dr.* to A " is obviously the writing off of a debt irrecoverable from A. On the other hand, if we have " A *Dr.* to B," the reason for the entry is not clear without a narration such as " Error in posting 20th Jan."

PURCHASES BOOK

Nature and Use. This is one of the subsidiary books, or books of original entry in which are entered all goods bought *on credit.* In addition to being called the " Bought Book " and " Bought Day Book," which terms are self-explanatory, it is also termed the " Invoice Book," owing no doubt to the fact that the bought invoices are copied into it, sometimes in detail, sometimes in total. *Cash* purchases are best dealt with in the Cash Book alone, though the practice of entering them in the Bought Book as well, in order to post the purchases in one total to the Purchases Account, still obtains. The rulings vary from the ordinary two columns for details and total respectively to the several columns in use in those businesses where, owing to the complexity of the transactions, analysis becomes imperative if the system of book-keeping is to furnish really satisfactory information.

Guard Books. The tabular Purchases Book (plus an alphabetical file) has practically replaced the old-fashioned guard book in which the original invoices were pasted, money columns being provided for the total of each invoice. The cumbersomeness of the book, the labour of folding the invoices in the first place, and the inconvenience of unfolding and refolding them whenever reference is made, has no doubt led to its gradual supersession.

Trade Discounts. These are abatements or allowances from the catalogue price of goods. They should be deducted from the invoices which will be entered *net* in the Purchases Book and so posted into the Ledger.

Common Errors in the Purchases Book. In writing up the ordinary two-column Purchases Book, care must be taken to see that no purchases are entered in it except those that are for *re-sale.* If purchases of machinery, fixtures, stationery, coal, etc., are so entered, the Purchases Book must be analysed and summarized at the end of the month in order that all such items may be posted to appropriate asset and expense accounts. These commodities are for own use or consumption, and if posted to the Purchases Account would cause the gross profit to come out at less than the actual amount.

Trade Purchases Book. There is a marked tendency in many businesses to keep the Purchases Book for trade transactions only,

i.e. for purchases of goods for re-sale; and, in such cases, the Bought Ledger is often called the "Trade Ledger." Invoices for assets and expenses are filed as and when received, and, when paid for at time of purchase, the personal side is ignored by posting the payment in the Cash Book direct to the asset or expense account involved. Thus, suppose on the 15th of the month we bought some stationery from Messrs. Brown & Co. When the invoice was received it would simply be filed, and at the end of the month when the account was paid, the entry in the Cash Book would be *By Stationery (Brown & Co.)*; which would be posted direct to the Stationery Account. This saves a considerable amount of entering up in the Bought Book, and is, perhaps, quite satisfactory in those businesses where the items are few and it is the custom to pay all such accounts at the end of the month.

SALES BOOK

Nature and Use. This is another of the books of original entry. In it are recorded all goods sold *on credit*, i.e. not paid for at the time of sale. The book is known by various names: "Day Book," "Sold Day Book," and "Sales Day Book." The ruling may be the ordinary two columns or it may be the tabular form, which is a matter dictated by the requirements of the business. *Cash* Sales should not be included in this book, but should be entered in the Cash Book only. If, however, a regular credit customer happens to pay cash down for some particular goods in order to reap the benefit of a cash discount, it is best for such sale to be passed through the Sales Book in the usual way, so that the customer's account may be a full record instead of a partial one. But where a customer has *not* a Ledger account with the firm, such a course is, as a general rule, wholly unnecessary. It duplicates the work without offering any compensating advantage.

Odd and Even Day Books. In some businesses the custom exists of keeping *odd* and *even* Day Books; that is to say, all transactions on even dates, such as 2nd, 4th, 6th, etc., will be entered in one book; and all transactions on odd dates, such as 1st, 3rd, 5th, etc., will be entered in another book. This is done in order to prevent loss of time through one clerk having to wait for a book that another clerk is using. It also ensures the clerical work being up to date, for the ledger clerk can be using one Day Book to post up the previous day's transactions, while the invoice clerk is using the other Day Book to write the current day's transactions.

Trade Discounts. As with the Purchases Book, so also with the Sales Book, these allowances off the selling price should be deducted on the invoice, and only the *net* sale carried out and posted into the Ledger.

Sales Journal. This is a form of Sales Book adopted in those

businesses where press-copy or carbon-copy Invoice Books are in use. No details are entered in it, but merely the date, name, and total of each transaction, columns being provided for the purpose of analysis. Reference is made to the detail by quoting the number of the invoice or the folio or page of the press-copy book. The following is an example—

SALES JOURNAL

Date	No. of Invoice[1]	Name	Led. Fol.	Total	Mantles	Dress Materials	Felts

[1] Or Press Copy Book folio.

PURCHASES RETURNS BOOK

Nature and Use. This book, called also "Returns Outwards Book," is a book of original entry in which are recorded all returns of goods *bought*. The reason for return may be that the goods are of the wrong kind, or not up to sample, or because they are damaged. The ruling of the book will naturally be identical with the ruling of the Purchases Book. Allowances claimed for breakages, short weight, overcharge, etc., are usually dealt with in the same book.

Debit Note Book. A specially printed Memorandum Book is generally utilized. Debit Notes with full particulars are sent to the parties concerned, the counterfoils providing the material for writing up the Returns Book.

Posting to Ledger. Each person to whom goods have been returned, or from whom an allowance has been claimed, is debited in the Bought Ledger, and, at the end of the month, the total is credited to the "Purchases Returns and Allowances Account" in the General or Impersonal Ledger. Some accountants, however, prefer to open a separate "Allowances Account" for such items as are not actual returns, i.e. abatement in price, claims for broken or damaged articles, etc. The Allowances Account is finally closed to Trading Account through the Purchases Account.

SALES RETURNS BOOK

Nature and Use. This book, termed also "Returns Inwards Book," is a subsidiary book used for the purpose of recording all

returns of goods *sold*. The circumstances necessitating the return of the goods may be that they are of the wrong description, or of inferior quality, or damaged. The ruling of the book will, of course, correspond with that of the Sales Book. Allowances claimed in respect of short delivery, breakage, overcharge, etc., are usually included in the same book.

Credit Note Book. A specially printed counterfoil Memorandum Book is in common use. Credit Notes, printed in red ink, with full details, are sent to the customers concerned, the counterfoils supplying the necessary particulars for writing up the Returns Book. Since, however, these items arise from claims by customers, another method is to *file the claims* and enter up the Returns Book from the file. This ensures that all credits are *bona fide* claims and obviates the possibility of an amount being collected and embezzled and then entered as " Returns."

Posting to Ledger. Each person who has returned goods is credited in the Sales Ledger, and, at the end of the month, the total is debited to the " Sales Returns and Allowances Account " in the General or Impersonal Ledger. For such items, however, as previously mentioned under Purchases Returns Book, which do not partake of the nature of returns, a separate " Allowances Account " is sometimes kept in addition to a Returns Account, and closed at balancing time to the Trading Account through the Sales Account.

CASH BOOK

Nature and Use. This is a book of original entry, the object of which is to record all receipts and payments of money. It is wrongly classed as a subsidiary book, for it is really part of the principal book, i.e. the Ledger, being nothing more or less than the Cash and Bank Accounts taken out of the Ledger and bound separately for the sake of greater convenience. This is at once apparent when we remember that the Cash and Bank balances, like all other Ledger balances, must be entered in the Trial Balance and Balance Sheet before either of the latter can be agreed.

Headings of Cash Book. The ornamental headings *Cash* and *Contra* are still sometimes found, though they serve no useful purpose.

Rulings of Cash Books. There are different rulings of Cash Books in vogue. With the ordinary Cash Books the number of columns varies from one (for Cash or Bank) to three (for Discount, Cash, and Bank respectively). With tabular Cash Books the number of columns may be numerous, according to the nature of business or the requirements of the counting-house. (See page 12 under " Bank Cash Book " for a more modern method of recording cash.)

Contra Entries. In the ordinary three-column Cash Book there

will be, in addition to the usual receipts and payments of money, *cross* or *contra* entries, i.e. transfers of money from Cash to Bank, and contra transfers from Bank to Cash. A surplus of Cash is paid into Bank, and a shortage of Cash is made good by withdrawals from Bank. In all such cases an adjusting entry is, therefore, required in the Cash Book.

Cash Discounts. These are deductions made, at the time of settlement, from accounts receivable and payable. They are entered in a special column of the Cash Book, and their totals are respectively posted to a "Discounts Allowed" and a "Discounts Received" account in the Ledger, so that the exact gain or loss by discount may easily be ascertained.

Treatment of Cheques. In some businesses all cheques received are entered in the Cash column; in others they are entered direct into the Bank column. Again, in some businesses, cheques received from customers are endorsed on to creditors. Such cheques must, both when received and also when paid away, be entered in the Cash columns. The practice is, however, unsatisfactory—all cheques should preferably be cleared through a bank the same day as received.

Cash Sales. Where the Cash Sales, or "till takings," as they are often called, are not very large or numerous, the total is generally entered at the end of the month in the General Cash Book, and posted to the Sales Account in the General Ledger. But where the transactions are both large and numerous, a separate Cash Sales column is provided for the daily or weekly amount, and the monthly total of this column is posted to the Sales Account.

Bills Receivable and Payable. Where Bills Receivable and Bills Payable are very numerous it is not unusual to find separate columns provided in the Cash Book to accommodate such receipts and payments. Only the monthly totals of such columns are posted to the General Ledger accounts for bills, thus saving the labour of posting a considerable amount of detail. The detail posting, however, possesses the advantage of showing at a glance which bills are outstanding.

Posting to Ledger. All items in the Cash Book (excepting balances and cross entries) are posted into the Ledger. The receipts on the debit side of the Cash Book are posted to the *credit* of the Ledger accounts affected, "*By Cash,*" and "*By Discount,*" (if any); and the payments on the credit side of the Cash Book are posted to the *debit* of the Ledger accounts concerned, "*To Cash,*" and "*To Discount*" (if any); or, the Cash and Discount are frequently added together and posted as "Cash, etc." It depends largely upon whether the advantage of having the two items in the Ledger compensates for the time occupied in making two entries instead of one in each case. The discount total on the Dr.

side of the Cash Book is posted to the Dr. of Discount Account in the Ledger, as the items have been posted individually to credit of the personal accounts. The reverse applies to those on the Cr. side, i.e. the total discount on the Credit side is posted to the credit of the Discount Account, the items having been posted individually to the debit of the personal accounts. Very often the discount totals on each side are posted to separate accounts, as previously mentioned when dealing with Cash Discounts.

Balancing the Cash Book. To avoid the trouble, as well as the possibility of error, of continually carrying forward large amounts on each side, the Cash Book is balanced at least once a month, and the balances are carried down to the new period.

Bank Cash Book. A modern development of the three-column Cash Book (Discount, Details, Bank), known as the " Bank Cash Book " is much in use at the present day. All money received is paid into the Bank intact, and all payments except Petty Cash payments are made by cheque. The debit side of the Cash Book is written up from printed and numbered carbon copy receipts, and the credit side from the counterfoils of the cheques paid away. No cross entries are necessary; when money is paid into the Bank, the amount is simply extended into the Bank column; and when money is drawn for Petty Cash, the amount is credited out of this Cash Book and posted to the debit side of a separate Petty Cash Book.

Cash Systems. The forms of Cash Books outlined, whilst in very general use, do not represent the last word in system as applied to the control of cash under modern conditions of commerce. The student must not imagine that there is a one and only Cash Book in use (though ruled with two or more columns) in the counting-house. As the Journal has been superseded by a number of subsidiary books which contain transactions peculiar to them, so also has the Cash Book proper been adapted to meet modern requirements. The first change is wherein the Cash Book is composed of two books, namely, " Cash Received " and " Cash Paid." These books are again subject to division as determined by the circumstances of the business. The counting-house may have " Received " and " Paid " Cash Books corresponding to Debtors and Creditors for different localities, etc. Again, a " Cash Paid " Book may be had for control over " real " expenditure, and a further one for expenditure on " fixed " charges. Whenever transactions in cash in any particular direction assume sufficient importance as to their nature and extent, then special provision for its control in the cash system will be effected. A cash system develops side by side with a business, and only a thorough knowledge of practical conditions can indicate the best system of control of cash. Cash systems are applied in a very thorough and efficient manner by public utility companies, such

as Gas companies, Water companies, and Railway companies, etc. Insurance companies have a very elaborate system of control over cash, and an idea of the system is appended.

Reverting to the "Cash Book," it remains to be said that its function under a cash system is that of a summary—or "total" cash account—and contains only the final figures taken from the subsidiary cash books.

The Cash system of a life assurance office provides the following Cash Books and registers for control over money received and paid through its offices and agencies.

A GENERAL CASH BOOK, for daily totals, with two subsidiary cash books, namely, "Cash Received" and "Cash Paid."

1. The *Cash Received Book* is provided with the following columns—

(*a*) Premiums.
(*b*) Interest.
(*c*) Dividends on loans and investments.
(*d*) Loans repaid.
(*e*) Branch and agency remittances, etc.
(*f*) Consideration for annuities.

The amounts entered in the respective columns are, in turn, supplied from "subsidiary" cash books.

Examples of these are—

1. H.O. Premium Cash Book.
2. Agency Remittances Cash Book.
3. Loans Cash Book, etc.

2. The *Cash Paid Book* is provided with the following columns—

(*a*) Claims.
(*b*) Annuities.
(*c*) Bonuses.
(*d*) Surrenders.
(*e*) Loans.
(*f*) Investments.
(*g*) Reassurances.
(*h*) Management expenses, etc.
(*i*) Sundry Expenses.

The amounts entered in the respective columns are, in turn, supplied from "subsidiary" cash books.

Examples of these are—

1. "Claims" Cash Books (Ordinary and Industrial).
2. Loans on Policies Cash Book.
3. Annuities Cash Book.
4. Surrenders.
5. Petty Cash Book, etc.

Although special cash books may not be provided for all classes of receipts and payments, there would be adequate means of control by records in appropriate books, registers, etc.

Reconciliation Account. This is a statement drawn up in order to agree the Bank balance *as shown by the Bank Pass Book*, with the Bank balance *as shown by the Bank column of the Cash Book.* The statement is generally copied into the Cash Book at the end of the month as a permanent record. The two balances seldom agree. Cheques paid away to creditors are entered in the Cash Book as at the date they are drawn, but they will not be shown in the Pass Book until the creditors have cleared them. Again, cheques paid into the Bank do not always appear in the Pass Book on the same date; the "clearing," especially in the case of country cheques, is not always effected on the day they are lodged with the

bank. On checking the Pass Book with the Cash Book at the end of the month there will be several items not ticked in the Cash Book, simply because they are not included in the Pass Book. These items furnish the material for the adjusting entries as shown in the *pro forma* example below. The statement is written in red ink.

RECONCILIATION STATEMENT

	£	s.	d.	£	s.	d.
Bank Balance as per Pass Book . .				550	10	6
Add Cheques, etc., paid in, not cleared	67	13	2	67	13	2
				618	3	8
Deduct Cheques paid away, not yet presented—						
Smith & Son	16	2	9			
Jones & Co.	23	4	7			
Brown & Roberts	10	15	2	50	2	6
Bank Balance as per Cash Book . .				£568	1	2

PETTY CASH BOOK

Nature and Use. This is a book of original entry devised for the purpose of relieving the General Cash Book of much cumbersome detail. It is used for recording the numerous petty disbursements incidental to modern businesses. There are various methods of keeping the Petty Cash, the money for which is advanced in round sums as and when required. In small businesses a Memorandum Cash Book is kept, and at the end of the month the total expenditure is credited in the General Cash Book and charged to the Trade Expenses Account; in other cases the expenditure is analysed under appropriate headings, and the analysis is copied into the General Cash Book for posting to the corresponding Ledger accounts. A Petty Cash Account is often raised in the Ledger, and the monthly summary journalized and posted to the debit of the accounts concerned and to the credit of the Petty Cash Account.

Imprest System. The most up-to-date method of keeping the Petty Cash is what is known as the "Imprest System," by means of which a certain sum of money is definitely "retained" or "held" for Petty Cash expenditure. At the end of the month a cheque is drawn for the exact sum spent, so that the imprest amount is always in hand at the commencement of each month. The expenditure is recorded in a tabular Petty Cash Book, which is utilized as a posting medium. By this method the expenditure is analysed daily as it occurs, thus saving the trouble of monthly analysis; while the posting of the columnar totals direct from the Petty Cash Book to the expense accounts in the General Ledger

instead of through the medium of the Journal, is a great saving of labour, and also minimizes the risk of error inasmuch as copying into the Journal is dispensed with.

BILL BOOKS

Nature and Use. These are two subsidiary books, called Bills Receivable Book and Bills Payable Book respectively, used for the purpose of recording all bills drawn, received, and accepted by the firm, and the necessary particulars connected with them, such as drawer, drawee, payee, tenor, where payable, due date, etc.

LEDGER

Nature and Use. We come now to what is called the *principal* book, namely, the Ledger. As has been previously stated, a part of the Ledger, called the Cash Book, is bound as a separate book for the sake of convenience. The word *ledger* is derived from the Old Dutch *legger*, from *leggen* = to lie. The *whole* of a trader's transactions are entered from the subsidiary books into the Ledger, but in a summarized and classified form, e.g. all Smith's transactions in Smith's Account, all Sales transactions in Sales Account, but in total instead of in detail, and so on. The transactions, so to speak, *lie* there ready for reference.

Rulings of Ledgers. Many different rulings are met with in business. The most usual have columns for date, particulars of transactions, folio, and amount. Double money columns are in use where the business has foreign customers, one column being kept for currency and the other for sterling. Double money columns are also provided in order that accounts may be ruled off as and when paid.

Index. In order to facilitate reference to the accounts contained in it, each Ledger is furnished with an alphabetical index, which is either at the commencement of the Ledger or bound as a separate book. Card Indexes are in vogue in many businesses. The index cards are kept in a tray, a separate card being used for each customer's name. They have many advantages; new names may be added without throwing the others out of order; they also effect a great saving of labour, as the necessity for re-writing an index does not arise.

Subdivisions of the Ledger. The usual subdivisions of the Ledger are as follows—

Purchases or Bought Ledger (sometimes termed "Creditors' Ledger"), which contains the *creditors'* accounts.

Sales or Sold Ledger (sometimes termed "Debtors' Ledger"), which contains the *debtors'* accounts.

Impersonal or General Ledger, which contains the *real* and

nominal accounts. The term Nominal Ledger is sometimes applied to this Ledger; but this is inaccurate, since such a designation should, strictly speaking, embrace only those accounts that relate to gains and losses.

Private Ledger, which contains the *Capital Account* and *Drawings Account* of the proprietor or of each of the partners. It also contains the Trading and Profit and Loss Account and Balance Sheet for each half-year or year.

Other Divisions of Ledgers. In addition to the above, we find other subdivisions such as Bills Receivable and Bills Payable Ledgers, Agents' Ledgers, Branch Ledgers, Consignment Ledgers, Investment Ledgers, etc., each firm adapting the division to meet its own particular requirements.

Sectional Division of Ledgers. In some businesses the Bought Ledgers and Sales Ledgers are divided into sections (*a*) *alphabetically* as A-G, H-L, M-R, S-Z; (*b*) *departmentally* as A Dept., B Dept., or Hosiery Dept., Drapery Dept.; or (*c*) *geographically* as Town, Country, Foreign.

Balancing of Ledgers. No hard and fast rule can be laid down for balancing and ruling off Ledger accounts. In some businesses it is done monthly, in others quarterly. Again, in some businesses accounts are also ruled off as and when paid; in others, only at the close of each half-yearly or yearly trading period, it being desired to see the turnover of each customer. Probably the balance of convenience is to rule off an account whenever a payment is made, so that the *composition* of the balance remaining may be seen at a glance.

LOOSE LEAF AND CARD LEDGERS

Nature and Use. Loose Leaf Ledgers consist of sheets ruled like the pages of an ordinary bound Ledger, such sheets being inserted or abstracted from an expanding binder as and when required. A certain number of sheets are printed and numbered; and a register is kept which shows when and to whom they were issued. The sheets are arranged alphabetically, A1, A2, A3, etc., B1, B2, B3, etc., C1, C2, C3, etc., and the number given to a customer when an account is opened for him always appears on all sheets relating to this particular customer. Thus, suppose James Smith is the twenty-third customer whose name begins with S; then S23 will always appear on the Ledger sheets of James Smith's Account. The Ledger sheets are kept in two distinct binders or holders, one for *live* or *current* accounts, and the other for *dead* or *closed* accounts. If the transaction is a chance one, the customer's account, when paid, is transferred to the closed section; if it is followed later on by further transactions, the account is retransferred to the current section. Card Ledgers are on exactly the same principle, the cards,

however, being kept in special trays or drawers. The loose-leaf binders and the card trays or drawers are generally fitted with patent locking devices, the keys of which can be retained by someone in authority. Though very suitable for the personal accounts of debtors and creditors, they can also be used to advantage for statistical records, such as cost accounts, register of members of a joint stock company, etc.

Advantages. The advantages claimed for Loose Leaf and Card Ledgers are as follows—

1. The current Ledger is not cumbered with dead or closed accounts, as the latter are taken out and filed separately; neither does it contain a number of blank pages.

2. There is no need for an index, the cards and leaves being arranged alphabetically.

3. The labour of making new indexes and of opening entirely new Ledgers is dispensed with.

4. The Ledgers are continuous or "perpetual." Extra leaves or cards are added for each new account.

5. The work of posting, rendering statements, or taking out balances can be performed much more quickly, as sheets can be allotted to a number of clerks simultaneously.

6. An account is continuous, not scattered over many pages of the Ledger and frequently necessitating much backward and forward reference when the account is one of any extent.

7. When accounts are the subject of litigation, to produce a few loose leaves or cards instead of a bound book or books would obviously be to the advantage of the court and the litigant, and also to the counting-house, as it would not bring the clerical work to a standstill owing to the books being away.

Disadvantages. The principal disadvantages of Loose Leaf and Card Ledgers are—

1. The cards or leaves may be accidentally or wilfully lost or destroyed.

2. Fresh cards or leaves may be fraudulently substituted for others, in order to commit or conceal fraud.

3. The uncertainty as to whether such Ledgers would be recognized if put in as evidence in a court of law.

Loose Leaf *v.* Card Ledgers. The advantages claimed for the Loose Leaf over the Card System are—

1. The form of the Ledger is maintained with any consequent benefits.

2. The Ledger sheets are not so likely to get displaced or lost, as they are larger than the cards.

3. It is just as suitable for large as for small accounts. A better idea of an account can be obtained by glancing over a few sheets than by looking at numerous cards.

4. The utility of Card Ledgers is restricted to the ordinary debtor and creditor rulings. Elaborate rulings are not possible on small-sized cards.

On behalf of the Card System it is contended that cards are more easily handled, and that there is little risk of cards being displaced or lost.

SLIP SYSTEM OF BOOK-KEEPING

Nature and Use. Mention must here be made of what is known as the " slip " system of book-keeping. It is really a reintroduction of the earliest methods of " book-keeping without books," or " accounting," as it should be more properly called in such cases; that is, a recording on loose sheets of paper, of transactions usually entered in subsidiary books. In its widest sense the term includes also loose-leaf and card Ledgers. Under the ordinary system of book-keeping, transactions are recorded in books of original entry, and these transactions have to be copied into the Ledger. The copying process has to be continued into other books according to the complexity of the transactions and the requirements of the business itself. The object of the slip system is to do away with this constant re-copying, by making the original record serve all the purposes of book-keeping. Thus, a carbon copy of an invoice may serve the purpose of both Day Book and Ledger Account. The counterfoils of receipts and cheques may be posted direct to the Ledger Accounts affected, thus avoiding the copying into the Cash Book and the subsequent copying from there into the Ledger. Naturally, there are many variations of detail in practice, a constant compromise, so to speak, between principle and convenience. The slip system has been adopted by banks for many years, the numerous customers' accounts being regularly posted up from original " dockets," such as paying-in slips, cheques, etc.

Advantages. The following advantages are claimed for the slip system of book-keeping—

1. Saving of time and labour, as it reduces the number of subsidiary books.
2. Ledgers can be posted more promptly, as the slips can if necessary, be distributed among several ledger clerks simultaneously.
3. The minimizing of the risk of error, as much copying into intermediate books is dispensed with.
4. Ready reference from the Ledger direct to the original slips.

Slip Day Book. A large book is generally used with at least three or four printed and numbered invoice forms on a page. Carbon copies are obtained each time an invoice is made out. Postings are made from the carbon facsimiles (which are also detachable), *direct* to the personal accounts in the Ledger. References are made in the Ledger to the number of the posting slips, which are

then carefully filed alphabetically, and in order of date. If subsequent reference is likely to be frequent, the detail itself is often copied into the Ledger so as to avoid the constant turning up of slips. The amount of each invoice is extended into money columns provided on the counterfoils, or entered on a summary sheet against its corresponding number, or into a specially ruled dissection book if dissection is necessary; and the totals of the counterfoils, summary sheet, or dissection book are posted periodically to the Sales Account. In some cases, however, the amount of each slip is posted direct to the Sales Account. A simple form of such day book is in use in most retail shops. Carbon copy " bills " or invoices are made out for each sale, one copy being given to the customer and the other handed in at the cash desk. Each form is numbered, and the amount of each sale is registered on a summary sheet at the back of the book, so that the total sales may be ascertained daily or periodically. Where dissection is imperative, the carbon duplicates are usually on different coloured papers, according to the departments making the sales; and dissection is easily carried out, by simply sorting the slips into their different colours and then totalling them. Under this system, one of the commonest errors is guarded against, namely, the sending out of an invoice without any record of the sale being made in the Day Book. It is not necessary that the invoices be written by hand; they can be typewritten, if desired. The principal objections to the ordinary bound Day Book are the length of time taken to compile it, lack of facilities for dissection, and the uncertainty as to whether the entries made therein correspond exactly with the invoices sent out to the customers.

Slip Cash Book. For the General Cash Book it will no doubt be found desirable to retain the ordinary bound form of book. But where numerous subsidiary Cash Books are in use, a great saving of labour may be effected by the adoption of the slip system. An ordinary sized Cash Received Book is employed, having three or four printed and numbered carbon copy receipt forms on a page, which are provided with numbered counterfoils ruled with money columns. The carbon duplicates are detached and handed to the ledger clerks concerned for posting to the various personal accounts, after which they are filed alphabetically and in order of date. The totals of the counterfoils serve as a check on the debit side of the General Cash Book, and also for the purpose of compiling adjustment accounts for " Self-balancing Ledgers." The practice of using carbon receipts obviates the risk of money being received and acknowledged without any record being made of it. It is not, however, an infallible safeguard against embezzlement, as the receipts may be fraudulently altered; but it is a sufficient safeguard, inasmuch as alteration or erasure can be more or less easily detected.

As regards a Cash Paid Book, the same system could be employed i.e. each page would contain three or four cheque forms provided with detachable duplicates, and with counterfoils ruled with money columns The duplicates would be used for the purpose of posting to the Bought Ledger and Impersonal Ledger accounts, while the counterfoils when totalled would act as a check on the credit side of the "General Cash Book." But there is hardly the same necessity as with money received, because the payments are much less numerous and more subject to supervision. It is, therefore, desirable to retain the old method of writing up the General Cash Book from the particulars on the cheque counterfoils, and to post the Ledger accounts concerned direct from this book.

Slip Ledger. Where it is desired to make the original slip serve all the purposes of book-keeping, the sale slips are not filed away in order of date, but are sorted into alphabetical order and placed in separate files or drawers. The personal account of each customer, therefore, consists of loose slips. When transactions are settled, the slips are removed to another set of files or drawers. This system is only suitable for businesses where the number of customers is very numerous, but the transactions with each only few in number, e.g. where the customers are chance and not regular ones. It may also be used for businesses where the accounts are nominally on a cash basis, but where it is sometimes necessary to give regular customers seven to ten days' credit. The advantages of this method are that it is absolutely direct, there being no intermediate entry between the original slip and the Ledger; also it obviates the risk or error arising from copying.

TRIAL BALANCE

Definition. A Trial Balance is a schedule or list of balances, both debit and credit, extracted from the accounts in the Ledger, and including the Cash and Bank balances from the Cash Book.

Object of the Trial Balance. Under double entry, the total debits in the Ledger must be equal to the total credits, and the Trial Balance is the recognized method of ascertaining whether this is so or not. The Trial Balance, being an epitome of the Ledger, is also used as material for preparing the Profit and Loss Account and Balance Sheet.

Ways of Constructing a Trial Balance. A Trial Balance can be constructed in two ways, (1) by means of totals, (2) by means of balances. Taking out the totals on each side of the Ledger accounts is seldom done nowadays. In theory exercises, when everything has been put through the Journal, the total of the debits and credits must also agree with the total of the Journal entries, thus affording an additional check on the accuracy of the postings. The modern method of preparing the Trial Balance is to take out the balances

of accounts, ignoring altogether those accounts in which the amounts on the one side correspond with the amounts on the other side. Some business houses, however, take out the Trial Balance in compound form, i.e. the totals and balances side by side. It has the advantage of revealing compensating errors, for the total of the debit column of the Trial Balance must then agree with the total of those subsidiary books that are posted to the debit of accounts in the Ledger; and the total of the credit column of the Trial Balance must likewise agree with the total of those subsidiary books that are posted to the credit of accounts in the Ledger. Where, after repeated attempts, the totals of the Trial Balance cannot be made to agree, the difference is, in practice, put temporarily to a special account entitled "Suspense Account," or "Error in Books," to await developments. But in a properly organized concern, nothing short of an exact balance can be considered satisfactory.

Trial Balance not an Absolute Proof. The Trial Balance is a proof only of the *arithmetical* accuracy of the postings; and even so, it is only prima facie evidence of such accuracy. Certain classes of mistakes, as under, are not shown by the Trial Balance prepared in the modern or simple form, i.e. balances only—

1. *Omission of Entries.* If both the debit and credit entries of a transaction have been omitted, the Trial Balance will not be affected, and will not, therefore, reveal the error.

2. *Compensating Errors.* If one account has been under- or over-debited or credited with a certain amount, say £20, and another account has been under- or over-debited or credited with the same amount, it will not prevent the agreement of the Trial Balance. Hence, the error will not be revealed.

3. *Misposting of Accounts.* If £100 has been posted to the credit of R. Smith instead of to the credit of F. Smith, or if £50 has been debited to F. Brown instead of F. Rogers, such a mistake does not throw out the Trial Balance.

4. *Errors of Principle.* If an item of revenue expense is debited to an asset account (or vice versa), the error does not affect the agreement of the Trial Balance and, therefore, it is not revealed.

Common Errors in Trial Balances. The reason why the totals of many Trial Balances cannot be agreed at the first attempt is very often due to one or more of the following errors—

1. *Debit* balances in the Ledger have been entered in the *credit* column of the Trial Balance, and vice versa. This, however, would only happen where debtors and creditors were in one Ledger.
2. Balances missed in extracting lists of debtors or creditors.
3. Bad figures.
4. Errors in calculations.

5. Allowances, etc., entered in personal accounts without coming from a Returns Book.

6. Reversal of figures £18 11s. for £0 18s. 11d., £7 9s. 1d. for £1 9s. 7d.

7. The Purchases Book and Sales Book totals *not posted* to the Purchases and Sales accounts respectively.

8. The Discount totals in the Cash Book either *not posted* to the Discount Account, or *misposted*, the sides being frequently reversed in error.

9. Cash and Bank balances, as per the Cash Book, *omitted* from the Trial Balance, or entered in the *credit* column instead of the debit, an error caused by the balances on the credit side of the Cash Book not having been brought down to the debit side thereof.

Construction of Trial Balance from List of Balances. Examination questions are sometimes set asking for the preparation of a Trial Balance from a given list of balances. This means that the items have to be sorted into debits and credits, the totals of which must agree. The procedure is not so simple as it looks at first sight, as students find when they actually essay the task. The following rules will be found useful—

1. Assets and Losses are debit balances.
2. Liabilities and Gains are credit balances.

Thus, regarding Purchases, Wages, Rent, etc., as losses, they will be entered in the *Dr.* column of the Trial Balance; and looking upon Sales, Discounts Received, Interest Received, etc., as gains, they will be entered in the *Cr.* column. Again, Stock, Plant and Machinery, Bills Receivable, etc., being assets, will be placed in the *Dr.* column; while Capital, Loans, Bills Payable, etc., being liabilities, will be placed in the *Cr.* column.

In items such as Interest and Discount it must be stated whether they have been received or paid; while the balances of personal accounts must be indicated as either Dr. or Cr. Sometimes, the two sides of the Trial Balance do not agree by a large amount, and if there is no *Capital* mentioned, the difference should be entered as such. In some cases, the question paper states that a business is purchased for a certain sum, but the net assets taken over (i.e. total assets less liabilities) amount to a smaller sum than the purchase price. The difference, of course, is goodwill.

QUESTIONS ON CHAPTER I

A

1. Define " Book-keeping." What are its objects?
2. Trace briefly the history of book-keeping and its modern additions.
3. What is Capital? What is a Deficiency? Explain the terms " trading," " fixed," " floating," " circulating," " positive," " negative," " loan," and " working " capital.

4. What is meant by " Assets "? Explain the following terms in reference thereto: " fixed," " floating," " liquid," " wasting," " fictitious." Give examples showing that " fixed " assets may sometimes be " floating," and vice versa.

5. What is meant by an " Account "? What two main divisions of accounts are there, and how are they subdivided? Explain what is meant by " real " and " nominal " accounts, and give examples of same. Show by means of examples how some impersonal accounts may be personal in meaning, and also how some accounts may be both real and nominal.

6. How many systems of book-keeping and accounting are there? Give a short explanation of each.

7. Explain briefly the theory of " double entry," and of " debit and credit."

8. What are the principal advantages of " double entry "?

9. Explain the signification of the debit and credit balances in a Ledger. Why is their proper classification of great importance?

10. What are the books used in book-keeping? Give a short explanation of each class. Explain the meaning and application of the term " subsidiary."

B

1. Define the term " Journal." Explain why the Journal has been gradually superseded by other "books of original entry."

2. Explain the present-day use of the Journal. Why is it important that transfers should always be made by means of Journal entries? What is meant by " narration "?

3. Explain the nature and use of the Purchases Book. What other names has it? How should *Cash* purchases be treated?

4. What are " trade " discounts, and how should they be treated in books? Give examples of some common errors in the Purchases Book.

5. What is meant by a " Guard Book," and a " Trade Purchases Book "?

6. Explain the nature and use of the Sales Book. What other names has it? How should *Cash* sales be dealt with? Are there any exceptions to the general rule?

7. Explain the practice of keeping " odd " and " even " Day Books, and its advantages.

8. Explain, with facsimile ruling, the nature and use of a " Sales Journal."

9. Explain the nature and use of a Purchases Returns Book. What other name has it? What is a Debit Note Book?

10. Explain the nature and use of a Sales Returns Book. What other name has it? What is a Credit Note Book?

11. What is a Cash Book? Explain its use. Is the Cash Book a " principal " or a " subsidiary " book? Give reasons for your answer.

12. Explain the terms " Cash," " Contra," " Dr," and " Cr " in a Cash Book. What are " cross " or " contra " entries?

C

1. What are " cash " discounts, and how should they be treated in the books? What variations are there in practice with regard to the treatment of cheques?

2. How should Cash Sales be treated in the Cash Book? Why are columns for Bills sometimes found in the Cash Book?

3. How is the Cash Book posted to the Ledger as regards (*a*) receipts, (*b*) payments, (*c*) discounts? When is the Cash Book balanced, and why?

4. Explain briefly the nature and use of a " Bank Cash Book." Submit example and make six specimen entries therein.

5. What is a Reconciliation Statement or Account? Submit *pro forma* example of same.

6. Explain briefly the nature and use of a Petty Cash Book, and its connection with the Cash Book, Journal, and Ledger.
7. What is meant by the Imprest System of keeping the Petty Cash? Give a short account of its operation and advantages. Submit ruling of such a Petty Cash Book, and enter therein six specimen transactions.
8. Explain the nature and use of Bill Books. Submit rulings and make three specimen entries in each book.
9. What is a Ledger? Explain the use of the book and the derivation of the word.
10. What is the object of double money columns in some Ledgers? What is an Index? Explain the use and advantages of Card Indexes.

D

1. Name the usual subdivisions of the Ledger, and give a short description of each. What mistake is sometimes made with reference to the use of the term "Nominal Ledger"?
2. What other divisions of Ledgers are sometimes met with? Explain the "sectional" divisions of Ledgers. When should Ledgers be balanced?
3. Describe briefly the nature and use of "Loose Leaf" and "Card" Ledgers.
4. Enumerate (*a*) the advantages and disadvantages of Loose Leaf and Card Ledgers as compared with the ordinary Ledgers, (*b*) the relative advantages of Loose Leaf over Card Ledgers, and vice versa.
5. Write a short description of the "Slip System" of book-keeping or accounting. What advantages are claimed for it?
6. Explain briefly the nature and use of (*a*) Slip Day Book, (*b*) Slip Cash Book, (*c*) Slip Ledger.
7. What is a Trial Balance? What is the object of it?
8. In how many ways can a Trial Balance be constructed? Explain each method and the advantages attaching thereto.
9. What errors are not disclosed by the Trial Balance in its modern form?
10. Describe some of the common errors which prevent the agreement of Trial Balances.
11. State the rule for classifying Ledger balances into debits and credits when preparing a Trial Balance from a given list of balances.

EXERCISE I

1. Journalise the following—
(*a*) Jan 15th. Exchanged 3 Carpets, valued at £4 each, for 2 Office Desks worth £12.
(*b*) Exchanged, on Jan. 17th, Office Safe, valued at £20, for Typewriter worth £25.

2. Enter the following transactions into a suitable Purchases Book, showing discounts in full detail—

			£	s.	d.
Jan.	1.	Bought of A. Brown, 20 bags of Coffee, less 10 per cent trade discount, net	72	18	–
„	5.	Purchased from R. Smith & Co., 12 cases of Sugar, less 12½ per cent trade discount, net	42	14	–
„	9.	Bought of T. Titus, 6 chests of Tea, less 20 per cent trade discount, net	36	12	4
„	15.	Bought of O. Omicron & Son, 20 bags of Coffee, less 7½ per cent trade discount, net	74	15	5
„	23.	Purchased of P. Peters, Ltd., 20 cases of Sugar, less 5 per cent trade discount, net	57	19	–
„	27.	Bought of L. Lucas, 12 bags of Cocoa, less 25 per cent trade discount, net	28	14	6

3. Peter Smith sold on 1st February last to John Swift a parcel of Goods to the value of £580 net; the terms of payment were originally cash in a month, but, subsequently, these terms were altered, Swift arranging to pay £130 in cash on the Goods being delivered, and as to the balance, to accept Smith's draft at two months for £250, and at four months for £200, Swift also agreeing to pay in cash Discount at 4 per cent, with 1 per cent Commission on the two Bills. This agreement was carried out; the £130 with the Discount and Commission Swift paid, and the two drafts as accepted by him, handed over to Smith.

Make the necessary Journal and Cash Book entries recording this transaction and post to Ledger Accounts. *(London Chamber of Commerce.)*

4. Set out below are extracts from the Cash Book (Bank columns only), and Bank Pass Book of J. Bull. Prepare a "Reconciliation Statement" as on December 31st.

CASH BOOK

		£	s.	d.			£	s.	d.
Dec. 1	To Balance	458	2	6	Dec. 2	By Wages	48	–	–
„ 4	„ J. Smith & Co.	51	10	8	„ 4	„ Petty Cash	10	–	–
„ 7	„ Brown Bros.	104	8	6	„ 9	„ Self (Private)	100	–	–
„ 9	„ Geo. White & Son	44	18	4	„ 14	„ J. Tucker	284	2	9
„ 11	„ Buller & Co.	124	2	4	„ 16	„ Wages	51	–	–
„ 29	„ Plumer & Co.	98	–	2	„ 20	„ Cheque Book		4	2
„ 30	„ P. Methuen	208	16	4	„ 30	„ Chermside & Co.	41	–	10
„ 31	„ Cronje & Co.	84	14	9	„ 31	„ Salaries	35	–	–
					„ 31	„ Wages	49	–	–
					„ 31	„ Hunter & Co.	101	4	8
					„ 31	„ Balance c/d	455	1	2
		1,174	13	7			1,174	13	7
Dec. 31	To Balance b/d	455	1	2					

BANK PASS BOOK

(J. Bull in A/c with the Blankshire Bank)

		£	s.	d.			£	s.	d.
Jan. 1	To Self	50	–	–	Dec. 31	By Balance forward	205	15	5
„ 1	„ Comm. on Scotch Draft (Plumer & Co.)			6	19.. Jan. 1	„ Plumer & Co.	98	–	2
					„ 1	„ Cronje & Co.	84	14	9
„ 2	„ Hunter & Co.	101	4	8	„ 3	„ J. Dundonald	49	14	8
„ 2	„ P. Carew	48	1	–	„ 4	„ P. Methuen	208	16	4
„ 3	„ Comm. on Scotch Draft (J. Dundonald)			3	„ 6	„ J. Smith & Co.	48	13	6
„ 3	„ Unpaid Draft (Cronje & Co.)	84	14	9					
„ 3	„ Chermside & Co.	41	–	10					
„ 7	„ Wages	52	–	–					

(London Chamber of Commerce.)

REVISION EXERCISE 1

1. Explain what systems of Book-keeping are used in ordinary practice, and state the differences between such systems, and which system, if any, is to be commended above the rest for its adaptability to all classes of business. *(London Chamber of Commerce.)*

2. What books are generally used in the Office of a Merchant Trader? State their several and respective uses. Give a ruling of a form of Cash Book that you would recommend. (*London Chamber of Commerce.*)

3. Put the following entries into subsidiary books, and assume that the trader pays all his Cash receipts intact into the Bank, and pays everything (excepting Petty Cash payments) by Cheque. Post to Ledger and draw out Trial Balance.

July 2. Sold Peter Jones 12 pieces Tapestry Carpet, 240 yd., at 1s. 9d., less 2½ per cent Cash in 7 days.
„ 2. Cash received, Ready Money Sales, £40 10s.
„ 2. Paid William Smith, Cheque No. 40, £54; Discount, 54s.
„ 3. Cash received, Ready Money Sales, £39 15s.
„ 4. Received John Brown's Cheque, £85; Discount, 90s.
„ 4. Cash received, Ready Money Sales, £54.
„ 5. Gave J. Smith & Co. my Acceptance at 3 months for £147 10s., dated 1st inst., balance of account.
„ 5. Cash received, Ready Money Sales, £47.
„ 5. Received William Dart's Acceptance at 2 months, dated 2nd inst., for £126 4s., balance of his account.
„ 5. Cash received, Ready Money Sales, £40.
„ 7. Bought of Jones, Wallace & Co., 20 bales Fancy, at £25 per bale Cash, less 3 per cent.
„ 7. Cash received, Ready Money Sales, £25 6s.
„ 9. Cash received of Peter Jones, £20 9s. 6d.
„ 9. Cash received, Ready Money Sales, £14 10s.
„ 9. Gave Jones, Wallace & Co. Cheque £485, No. 41; Discount, £15.
„ 10. Sold F. Humble, 20 pieces Fancy, at £35 per piece, Cash, 1st September, less 2½ per cent.
„ 10. Salaries and Wages, Pay Sheet to 9th inst., Cheque No. 42, £12 10s. 6d.
„ 10. Cash received, Ready Money Sales, £25.

(*London Chamber of Commerce.*)

4. Andrew Clark, Warehouseman, Leicester, not being satisfied with the result of his trading, cleared off all his Trade Liabilities at the close of the year; and on the 31st December he has his Stock carefully taken, and a valuation by an expert made of his Real Estate, and then called in Mr. Jones, a chartered accountant, to open up for him a new set of books. His position, at the date named, was as follows: He had with the Leicester Old Bank, to his credit on Current Account, £225; and on Deposit Account, £2,500. He had Stock on hand to the value of £6,000, and his Freehold Warehouse was valued at £1,500. His only Liability was to James Thompson, to whom he owed £4,000.

His rule was to pay all his receipts intact into the Bank, and his outgoings by cheque. He carried on business during the following year, and his transactions may be thus summarized—

	£
Goods bought	12,310
Goods sold	15,627
Cash paid for Goods purchased	10,600
Cash received for Goods sold	14,250
Goods returned by Customers	248
Goods returned by Manufacturers	340
Cash transferred from Deposit to Current Account	1,500
Cash paid James Thompson on account of Loan	2,500
Discounts allowed to Customers	230
Andrew Clarke—Payments to him as against anticipated Profits	500

	£
Cash received for Interest on Deposit	100
Cash paid for Interest on Thompson's Loan	225
He also paid in respect of the following—	
Wages and Trade Expenses	750
Salaries	430
Freight and Carriage	285
Repairs	90

Make the necessary subsidiary book entries, giving effect to the above transactions, post same to Ledger Accounts, and draw out Trial Balance. *(London Chamber of Commerce.)*

CHAPTER II

TRADING AND PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

BEFORE a discussion of the subject matter of this chapter is proceeded with, it is advisable to explain a few terms which will constantly be made use of in the following pages.

Profit. This is the surplus that remains after paying expenses and providing for the capital that has been consumed in producing.

Gross Profit. This is the excess of selling price over buying or cost price.

Net Profit. The excess of gross profit over the selling and management expenses.

Loss. This means that the expenses paid and capital employed and consumed during a given period have not been replaced by the proceeds, and that there is, therefore, a resulting deficiency or loss.

Gross Loss. Excess of purchase or cost price over selling price.

Net Loss. This is either (1) excess of selling and management expenses over gross profit, or (2) the total of gross loss, selling expenses and management expenses whenever there is no gross profit.

Turnover. By this term is meant the total *sales* of a trader during a given period. It must be carefully distinguished from **Output,** which denotes the quantity of goods *manufactured* by a factory, or the quantity of material *extracted* from a mine, quarry, etc., during a given time.

Percentages of Gross and Net Profit on Turnover. *Per cent* is a Latin phrase meaning *per hundred.* In some businesses it is usual to ascertain the percentages of gross and net profit on the total sales each year, in order that comparisons of different years may be made, and any increase or decrease duly noted. Such percentages are found by means of the following formulae—

$$(a)\ \frac{\text{Gross Profit} \times 100}{\text{Turnover}},\quad (b)\ \frac{\text{Net Profit} \times 100}{\text{Turnover}}$$

Mathematically, it may be more correct to make the calculation upon the *cost* price instead of the selling price. In business, however, *cost* is often a difficult thing to determine, as so many obscuring items have to be taken into consideration, such as the difference between the initial and final stocks, wages, freight, carriage, coal, and coke, etc. For the sake of convenience, therefore, the *selling*

price is adopted as the common base to which profits are reduced for purposes of comparison.

TRADING ACCOUNT

Definition. This is an account constructed for the purpose of finding the *gross* profit. On the *debit* side are placed the Stock at the commencement of the period to which the account relates, the Purchases, Carriage, Wages, Rent, etc., of *works* (probably), Coal and Coke, etc. On the *credit* side are placed the Sales and the Closing Stock. The balance between the two sides is the gross profit or gross loss; the excess of the credit side over the debit side is called the *gross profit*; if there were an excess of the debit side over the credit side, that would be termed the *gross loss*. This balance is transferred to the Profit and Loss Account.

Difference between a Trading Account and a Profit and Loss Account. The Trading Account deals with the *purchasing and manufacturing expenses,* such as freight and carriage inwards, remunerative or productive wages, coal and coke, etc. The Profit and Loss Account deals with the *selling, establishment, and distribution* expenses, such as rent, rates, and taxes (office and warehouse), salaries, freight and carriage outwards, etc.

Difference between a Trading Account and a Cost Account. A Trading Account contains only *part* of the cost expenses; a Cost Account contains the *whole* of them. Some items of cost vary directly with the turnover; for instance, the greater the turnover, the greater the charge for Wages, Coal and Coke, etc. Other items of prime cost do not vary directly with the turnover; such are Repairs and Renewals of Buildings, Repairs to Plant, Depreciation of Machinery, etc. The rule is, therefore, to charge to Trading Account only such items of prime cost as increase or decrease in direct proportion to the turnover (though the Rent of the works is usually so charged). By this means the rate of gross profit on turnover is kept constant, and a comparison of different years affords useful information. In a Cost Account, on the contrary, all prime cost expenditure, whether extraordinary or variable in nature, would have to be included.

Distinction between a Trading Account and a Manufacturing Account. Strictly speaking, a Manufacturing Account deals only with *raw materials* and manufacturing expenses. A Trading Account, properly so-called, deals only with *finished* goods, i.e. goods ready for sale, whether manufactured or purchased. The balance of the Manufacturing Account is transferred to the debit of the Trading Account.

Stock. This denotes the value of unsold goods at the opening and close of the trading period. Both stocks go into the Trading Account; and, in order to distinguish them, the student should

adopt the practice of calling them *Stock at start* and *Stock at finish* respectively—at any rate, in the earlier stages of his study of the subject. The Stock at start is the one in the Trial Balance or list of balances; and it is placed on the *debit* side of the Trading Account. The Stock at finish is the one outside the Trial Balance or list of balances; it is generally stated among the adjustments; and it is placed on the *credit* side of the Trading Account. The Stock at finish must also appear on the assets side of the Balance Sheet. " Stock " is always and distinctly to be understood as " *Stock-in-trade.*" Other stocks, such as Stock of coal, Stock of packages, Stock of stationery, etc., will be definitely stated as such, and must be dealt with separately.

Work in Progress, Orders on Hand. This item denotes partly executed work, something neither Stock nor Sales. In manufacturing concerns it represents goods in process of manufacture; while in non-manufacturing concerns, it may simply denote partly executed orders. A separate account is opened for it in the Ledger. The Work-in-Progress at start must be *debited* to the Trading Account, and the Work-in-Progress at finish *credited* to the Trading Account. The latter must also appear on the assets side of the Balance Sheet.

Purchases. This item denotes, in an ordinary business, the total of the cash and credit purchases of goods for resale; while, in a manufacturing concern, it represents the purchases of raw material for the purposes of manufacture. It is debited to Trading Account after deducting any Returns and Allowances relating thereto, the deduction being shown in the Trading Account itself. It is *not* correct to put the gross Purchases on the debit side of the Trading Account and the Purchases Returns on the credit side. Students should accustom themselves to look for any Returns and Allowances before they enter the amount of the Purchases in the Trading Account, so as to avoid the necessity for subsequent alteration.

Sales. This item represents the total of the cash and credit sales during the trading period. It is credited to Trading Account after deducting any Returns and Allowances in connection therewith, the deduction being shown in the Trading Account itself. It is *not* correct to put the gross Sales on the credit side of the Trading Account and the Sales Returns on the debit side. Students should make a point of looking for any Returns and Allowances before entering the Sales in the Trading Account, so as to avoid having to alter the amount subsequently.

Materials Consumed. This is an item which greatly perplexes the student, and, therefore, a short explanation of it is given. In manufacturing businesses it is necessary to ascertain the cost value of the goods sold during the period, and this figure cannot be

obtained without adjusting the opening and closing stocks with the purchases for the period, thus—

Opening Stock	£3,000
Add Purchases	8,500
	11,500
Less Closing Stock	2,450
Materials Consumed	£9,050

When this item appears in the Trial Balance or list of balances, the Stock which appears therein will be the Stock at finish, it having been debited to Stock Account and credited to the Materials Consumed Account. Taking the illustration given above, a Trial Balance would give either—

1. £3,000 and £8,500 as balances with £2,450 stated for adjustment purposes, or,
2. £9,050 and £2,450 as balances and no adjustment required.

This is the one exception to the general rule that the Stock at finish is always *outside* the Trial Balance. The student must, therefore, remember that the Stock at finish does *not* in such cases appear in the Trading Account, but *only* in the Balance Sheet. The Trading Account, under such circumstances, assumes the following form—

Dr. TRADING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Materials Consumed . .	9,050	–	–	By Sales (say) . .	16,720	–	–
„ Wages . .	2,000	–	–				
„ Balance (Gross Profit) . .	5,670	–	–				
	£16,720	–	–		£16,720	–	–

The Balance Sheet (assets side) showing the item—Stock (at close), £2,450.

Dock Charges. These are tolls or dues levied on ships and their cargoes when entering or leaving docks. Dock Charges inwards, i.e. on Purchases, should be debited to Trading Account; but Dock Charges outwards, i.e. on Sales, should be debited to Profit and Loss.

Duty. This includes both Customs and Excise duties. Customs duties are levied on goods imported and exported; excise duties are imposed on goods produced and consumed in the country itself. A distinction must be made between duties on Purchases and duties on Sales, the former being debited to Trading Account and the latter to Profit and Loss.

Freight. Freight is the charge made for conveyance of goods *by sea*, as opposed to Carriage. Freight Inwards, i.e. on goods *bought*, is debited to Trading Account; but Freight Outwards, i.e. on goods *sold*, is debited to Profit and Loss.

Carriage. This is the charge made for conveyance of goods *by land*, in contradistinction to Freight. Goods are sold either (1) *carriage paid*, or (2) *carriage forward*. This means that in case (1) the *seller* pays the carriage, and in case (2) the carriage has to be paid by the *buyer*. Carriage Inwards increases the cost of the goods purchased, and hence is debited to Trading Account. Carriage Outwards is a selling expense, and is debited to Profit and Loss. In exercises and examination work when Carriage appears in the Trial Balance, and is not specified as being either inward or outward, it is generally assumed to be *inward* and is debited to Trading Account. This is based on the legal aspect of the case, viz., that goods are sold where they stand and the buyer pays carriage. If the student places the Carriage in the Profit and Loss Account, he should guard himself with a note explaining that he has assumed the Carriage to be *outward*.

Cartage or Carting. This is the charge made for carting goods from warehouse to docks or from docks to warehouse, or from vendor's place of business to buyer's shop or warehouse, etc. These charges should be carefully analysed, those relating to goods *purchased* being debited to Trading Account, and those referring to goods *sold* being debited to Profit and Loss. Sometimes, these charges are not posted to special accounts of their own, but are merged in the Carriage Inwards and Carriage Outwards Accounts respectively.

Carriage and Cartage. In the accounts of builders, contractors, etc., this item is frequently debited to Trading Account. It has been charged (usually at a profit) in the estimate for the work done, and is consequently included in the Sales. The entries on the two sides of the Trading Account, therefore, offset each other.

Wages. This item denotes the remuneration paid to employees. Borrowing the phraseology of cost accounts, wages are classified into "remunerative" or "productive" wages, and "unremunerative" or "non-productive" wages. Productive wages are those which are a *direct* charge in the cost of manufacture or production. The term "manufacturing wages" is often employed, and signifies the wages of the factory workpeople and staff. Salaries may also in certain cases be *productive*. When a separate Manufacturing Account is not prepared, such wages and salaries are debited to Trading Account, as they form part of the cost of the goods. For instance, a boot and shoe manufacturer buys raw material, such as leather, and sells a manufactured article, viz. boots and shoes. He could not properly credit the sale

of the manufactured articles, i.e. the boots and shoes, against merely the cost of the raw material, i.e. the leather. The sale of the manufactured article must, of course, be set off against the cost of the manufactured article, which is obviously the cost of the leather plus the wages paid to manufacture it into boots and shoes. Again, take the case of a large rag merchant. He buys goods in one condition, and employs persons to wash, clean, sort, and pack them in another condition ready for sale. Although nothing is, so to speak, manufactured, yet such wages are undoubtedly Trading Wages; the expense had to be incurred before such goods could be sold. Non-productive or unremunerative wages are the wages of carmen, storekeepers, repairers, night watchmen, etc. Such wages are debited to Profit and Loss in the same way as salaries. Wages usually signify some hourly, daily, or piece-work rate of pay; salaries usually denote some fixed weekly, monthly, or yearly remuneration. When, therefore, the student finds a distinction made in the Trial Balance between Wages and Salaries, he should debit the Wages to Trading Account, and the Salaries to Profit and Loss. When Salaries and Wages appear as one item, they should be debited to Profit and Loss, being assumed to be non-productive. The above directions must not, however, be construed dogmatically, as it is intended to indicate only general principles and main lines of procedure. Special cases arise which must be determined by their own peculiar circumstances, it being quite impossible to lay down any hard-and-fast rule.

Manufacturing Charges or Expenses. These are expenses of a miscellaneous description that directly increase the cost of the goods; for instance, the dressing and ironing of shirts and collars when made, the sizing of paper or leather, the purchase of chemicals, etc. When a separate Manufacturing Account is not prepared, such expenses are debited to Trading Account.

Royalties. These are payments made to a patentee for the right to use his patent in the manufacturing process. Being productive expenses, they are debited to the Manufacturing Account when there is one, or, alternatively, to the Trading Account.

Motive Power (Gas, Electricity, and Water). Gas is sometimes used to run a little gas engine; electric current and hydraulic power are also used to work machinery. These expenses must be debited to Trading Account in the absence of a Manufacturing Account.

Fuel (Coal and Coke, Wood, etc.). These items being manufacturing expenses, are properly chargeable to the Manufacturing or Trading Account. Any unused stock of such articles must be credited to the account concerned, and only the amount actually used debited to the Manufacturing or Trading Account, as the case may be.

Consumable Stores (Engine-room Stores). These are manufacturing charges, and include engine oil, soft soap, tallow, cotton waste, etc. Like the item mentioned in the previous paragraph, the quantity actually consumed is debited to Trading Account, any unused stock being shown on the assets side of the Balance Sheet.

Rent of Factory. This item is debited to Trading Account by many accountants, but opinion is divided upon the question. Where a manufacturing firm owns its factory, an assumed amount representing rent of same is often debited to the Trading Account and credited to the Profit and Loss Account. The gross profit, therefore, corresponds with the gross profit which would be shown if the firm rented its premises instead of owned them. This prevents misleading comparisons and false conclusions. In exercises where Rent of Factory is shown separately from other rent, the student should debit it to Trading Account; otherwise, there would appear to be no reason for keeping separate Rent Accounts. The same remark applies to Rates of Factory where these have been separated from the other rates.

Packages, Packing Material. In many businesses special packages and special packing are required before goods can be considered ready for sale. In such cases this item of expense should be debited to Trading Account, as it would undoubtedly be charged for when fixing the selling price of the goods. In other cases, the packing material may be looked upon as a selling expense and debited to Profit and Loss. Any unused stock should be credited in the Ledger Account, and shown as an asset on the Balance Sheet. Where no stock is stated—and this is often the case in examination papers—the whole amount should be assumed to have been used, and be written off in the Trading or Profit and Loss Account as the case may be.

PROFIT AND LOSS ACCOUNT

As with the Trading Account, so also with the Profit and Loss Account, it is not intended to be confined to a definition, but it is proposed to give additional information on items comprising the account.

Definition. A Profit and Loss Account is an account into which all gains and losses are collected, in order to ascertain the excess of the gains over the losses, or vice versa. If the gains exceed the losses, the excess is called the net profit; if the losses are greater than the gains, the difference is called the net loss. American accountants call this account a " Loss and Gain Account," and such term is undoubtedly a more correct designation.

Dock Charges, Duty, Freight, Carriage, Carting. As mentioned when dealing with the Trading Account, all *outwards* charges in

connection with such items are debited to Profit and Loss, because they are *selling* expenses.

Rent. This is a money payment in return for the use of the business premises. Rent of Factory is, as previously mentioned, sometimes debited to Trading Account and sometimes to Profit and Loss. Two Rent Accounts should be opened whenever any part of the premises is sublet, or whenever rent is received for any property owned by the firm. The object of this is to show the actual gain and loss by Rent. If the Rent Receivable is credited to the Rent Payable Account, the balance of the account conveys a false impression, viz. that the Rent Payable is lower than it really is; and, in the Profit and Loss Account, the income received from Rent is entirely lost sight of. **Ground Rent** is the rent payable to the ground landlord for the use of the land on which the buildings have been erected. Income tax must be deducted from each payment of ground rent. The amount of the tax so deducted may conveniently be debited to the account to which the ground rent has been posted (thus bringing the gross amount into account), and credited to an account, " Commissioners of Inland Revenue." The amount paid for Income Tax Schedule D would be debited to this account, and the balance would be taken to the Profit and Loss Account. If Income Tax has not been paid, then the " Commissioners of Inland Revenue " would be shown on the liabilities side of the Balance Sheet. Ground Rent of manufacturing premises, like Rent of Factory, is sometimes charged to Trading Account.

Rates and Taxes. These are sums levied by municipal bodies, and also by the Government for the purpose of defraying public expenditure. They comprise the general district rate, etc. Income tax, Schedule A (sometimes called Property tax), and Schedule D, is best dealt with in a separate account.

Salaries. This item denotes the weekly or monthly remuneration of the employees of the firm in return for their services. *Productive* salaries should be charged to Trading Account. Where the business is divided into departments, there is generally a similar subdivision of the salaries. Sometimes, the division is into Office, Travellers, and Management Salaries. **Partners' Salaries** should be dealt with separately, as they require special treatment when preparing the firm's accounts for income tax assessment.

Salaries and Wages. Unless there is something to indicate the contrary, this item of expenditure is regarded as a selling expense and debited to Profit and Loss. If Wages are grouped with Salaries, the former are considered to be non-productive or unremunerative wages. The distinction between a salary and a wage is far from uniform. Some accountants distinguish by the *kind of work* done; payment for work of a mechanical nature is termed a wage, and payment for work of an administrative nature is called a

salary. Other accountants differentiate by the *period of time* covered by the payment; hourly, daily, or weekly rates of pay are called wages, and yearly sums payable half-yearly, quarterly, or monthly, are termed salaries. Again, there are other accountants with whom the criterion is the *amount* of the payment; to such, a small weekly sum denotes a wage, and a large weekly or monthly sum represents a salary.

Discount. This item represents the cash allowances made when accounts are settled. "Discounts Allowed" are a loss, and must be debited to Profit and Loss. "Discounts Received" are a gain, and must be credited to Profit and Loss. The terms "Discounts on Purchases" and "Discounts on Sales" are also in common use; they usually denote the *cash* discounts mentioned above. Students are often tempted to show such discounts in the Trading Account as a deduction from the Purchases and Sales respectively. The terms are certainly unsatisfactory, owing to the ambiguity attaching to them. A purchase or a sale may be subject to both a trade *and* a cash discount; and unless the discount on such purchase or sale is labelled "Cash" or "Trade" it is not possible to state definitely what it really is. In some exercises, the size of the discount (10 per cent and larger), obtained by a rough calculation, may be sufficient indication as to the destination of such discounts. But, generally, the student should, if he puts such discounts into the Trading Account, guard himself with a brief note explaining that such discounts have been assumed to be "Trade" discounts. Since Trade Discount is usually deducted from Sales and Purchases before they are entered in the books, any discount must (except in very special cases) be assumed to be *Cash* Discount. Some accountants prefer the terms "Discounts Receivable" and "Discounts Payable" to any of the foregoing terms. Again, other accountants adopt the terms, "Discounts on Purchases" and "Discounts on Sales" to denote *cash* discounts; but debit the Discount on Sales to Trading Account, and credit the Discounts on Purchases to Profit and Loss, these latter discounts being dependent on the financial resources of the business, while the former are in effect a reduction of the sales to the absolute net figures. The student should always treat the two amounts for discount separately. The object of having two totals is to show the actual gain and loss by Discount. It is not, therefore, correct to subtract one lot of discount from the other, and to deal only with the balance.

Interest. This item comprises interest charged on overdue accounts, on overdraft, on bills, on current account, etc. Interest on Capital and Drawings is generally dealt with apart from the general interest, in order to facilitate the preparation of Income Tax Returns. Where Interest has been paid on Loans, *less tax*,

the tax should be added and treated in the same way as mentioned under Ground Rent. Interest on Investments will have been received *less tax*, but no adjustment will be necessary. Interest is usually divided into two accounts, Interest Receivable and Interest Payable, and both amounts should be carried to Profit and Loss, the former being credited, and the latter debited.

Commission. While carrying on business for itself, a firm may also do work for other firms; for which, of course, it *charges* a commission. The student will possibly be familiar with one well-known instance, namely, Consignments Inwards. The firm may likewise employ agents to sell the firm's goods, and in such cases would have to *pay* commission. Two accounts are usually kept, for Commission Receivable and Commission Payable respectively. The former is credited to Profit and Loss as a gain, and the latter is debited to Profit and Loss as a loss.

Insurance. This item includes all annual premiums payable to Insurance Companies for indemnity (*a*) in the case of loss of goods or property by fire, burglary, flood, etc.; (*b*) in the case of breakage of plate glass windows; (*c*) in the case of damages awarded under the Employers' Liability Act, etc. National Health Insurance payments should preferably be dealt with in a separate account; an adjustment will be required, the Wages Account and Salaries Account being debited and Health Insurance Account credited with the weekly insurance contributions deducted from the wages and salaries of the staff. Insurance, being a loss, is debited to Profit and Loss.

Bank Charges. These are expenses incurred in the collection of Scotch and Irish cheques. This item often includes charges for cheque books, for keeping current accounts, for discounting bills, etc. Such expenses are losses and are, therefore, debited to Profit and Loss.

Legal and Accountancy Charges. Legal expenses comprise solicitors' fees, law charges, and expenses in connection with the recovery of debts, in lawsuits, etc. Accountancy Charges consist of the fees and expenses in connection with the investigation or audit of the accounts and books. These expenses are a debit to Profit and Loss.

Printing and Stationery. Expenditure under this heading consists of payments for paper, envelopes, invoices, statements, account books, etc. It often includes the cost of catalogues, samples, etc. Losses of this nature are debited to Profit and Loss.

Advertising. Most businesses incur expenditure under this heading, and many owe their success almost entirely to it. Sometimes contracts are entered into and paid for a period of years in order to obtain cheaper rates. Such money is then debited to an "Advertising Suspense Account," and written off proportionately each

year. Profit and Loss Account is, of course, debited with such an expense.

Repairs. Repairs and small renewals or replacements relating to the premises, to the plant and machinery , to the fixtures, fittings, utensils, etc., are generally included under this heading; and such expenditure, being a loss, is debited to Profit and Loss.

Postage, Telegrams, and Bill Stamps. Expenditure of this nature is, like other losses, a charge against profits. Bill Stamps means, of course, stamps on bills of exchange.

Apprentice Premium. This denotes the sum of money demanded in return for teaching a person any particular trade or profession. Being income, it is credited to Profit and Loss; but it is generally apportioned, i.e. spread over the period of apprenticeship. Thus, a premium of £400 for five years would be transferred to Profit and Loss by annual instalments of £80.

Housekeeping Expenses. In many businesses such as drapers, outfitters, etc., the assistants "live in." The expense of boarding them is, therefore, a proper charge against the profits.

Travellers' Commission and Expenses. In those businesses which employ a number of travellers remunerated by means of commission and expenses, such expenditure generally forms a separate item in itself. It is, of course, a debit to Profit and Loss.

Travelling Expenses. In some businesses much travelling is necessary, either by the principals or travellers, and sometimes by subordinate officials. Expenditure of such a character is generally dealt with as a separate item of expense, and, like other losses, debited to Profit and Loss.

Horse-keep, Horse and Stable Expenses. With some firms this is a fairly large item of expenditure of constant recurrence, and warrants, therefore, a separate account. Horse-keep comprises fodder (hay, straw, etc.) and provender. Stable Expenses includes also wages of stable hands. Such expenditure is debited to Profit and Loss.

Office Expenses. These are miscellaneous expenses pertaining to the office in contradistinction to the "works," expenses at the latter place being designated "Trade Expenses." The distinction has long been ignored and is now almost non-existent. Such an item is a charge against profits.

Trade Expenses. Generally speaking, these are expenses of a varied nature for which it is not worth opening separate accounts. They are, therefore, amalgamated under the above heading, or under some other similar term, namely, "General Expenses," "Petty Expenses," "Sundry Expenses." As explained in the previous paragraph, the original distinction between Trade Expenses and Office Expenses has almost reached vanishing point; but where it still obtains, Trade Expenses are debited to Trading Account,

and office Expenses to Profit and Loss. Except in a few isolated instances, therefore, Trade Expenses are debited to Profit and Loss, the term signifying merely miscellaneous *Business* Expenses and not *Trading* Expenses. It should be noted, however, that the original distinction is sometimes maintained under a new guise, by adopting the terms "Works Expenses" and "Office Expenses." To this, no objection can be taken; but the term "Trade Expenses" is undoubtedly very ambiguous.

Bad Debts. This is a loss which unfortunately most businesses sustain, however careful the management may be in allowing credit to customers. Losses of this nature are also debited to Profit and Loss. Should any bad debts written off be subsequently recovered, to any appreciable extent, they should not be deducted from the Bad Debts, but should be shown separately on the credit side of the Profit and Loss Account, being income of an extraordinary nature.

Depreciation. This is the loss of value sustained by certain assets through wear and tear, etc., e.g. plant and machinery, buildings, furniture and fixtures. If the business is to be put on a sound financial basis, such loss must be estimated and charged against the profits before arriving at the balance called "net profit." The subject of "depreciation" is dealt with at length in Chapter XVIII.

ADJUSTMENTS AT BALANCING TIME

These include various items which must be charged, or allowed for, before ascertaining the net profit. Outstanding liabilities and accruing income must be brought to account, expenses prepaid and unexpired income and expenditure must be apportioned, provision must be made for depreciation of assets, while reserves must be created for any expected gains and losses, etc.

Interest on Capital. This is a very usual adjustment where there are partners in a business. If the same amount of capital had been invested elsewhere, it would have earned interest, and the business is, therefore, charged with some rate, usually 5 per cent. Interest Account is debited and the partners' Capital or Drawings Accounts are credited with the amount. Such interest, however, is not actually paid to the partners; nevertheless, it operates as a loss to the business, being a charge against the profits, and as a gain to the partners, because it increases their capital.

Outstanding Liabilities. It very rarely happens that all the liabilities are entered in the books at the date of the half-yearly or yearly balancing. The 30th June and the 31st December seldom occur at the *end* of a week. They may fall in, or about, the middle of the week. This means that two, three, or four days' Wages and Salaries must be estimated and charged. These wages and

salaries, though not payable, have accrued due; and they must be debited to Profit and Loss, as a year's accounts must contain a year's Wages and Salaries; not a year *less* three or four days. Again, Rent is payable on certain fixed quarter days, and the half-yearly and yearly dates, i.e. Midsummer and Christmas, are 24th June and 25th December, respectively. The Rent for the odd days up to the end of the trading period must, therefore, be calculated and debited to Profit and Loss, so that a year's accounts shall contain a year's rent. In the case of Rates and Taxes, the foregoing remarks will also apply, if the rateable year does not coincide with the trading year. These expenses should be debited to their appropriate Ledger accounts, and credited to an Outstanding Expenses Account. More often than not, however, *no* Journal entry is made; the accruing amounts are debited in their Ledger accounts for the old period, and brought down as credit balances in the same accounts for the new period.

Accruing Income. It sometimes happens that certain income has accrued due, though it is not actually payable, to the firm. Where part of the premises has been sublet, Rent Receivable up to the time of balancing must be calculated and taken as a profit to Profit and Loss. " Sundry Debtors for Rent " should be debited and " Rent Receivable " credited; or the accrued rent may be adjusted in the Rents Receivable Account itself, by crediting the amount on one side, and bringing it down as a debit balance on the other side. There may also be some Dividends due on Consols or other investments. These should be debited, *less tax*, to an Outstanding Dividends Account, and credited to a Dividends on Investments Account, this latter account being duly transferred to the credit of Profit and Loss.

Apportionments. Expenses are sometimes paid which extend over two or three years, such as those for Advertising. A proportionate amount must be calculated each year, and taken as a loss to Profit and Loss. In cases where Telephone, Rent, Trade Subscriptions, Fire Insurance, etc., are paid in advance, if the year covered by the payment does not coincide with the trading year, the unexpired values of such payments must be deducted from the amount spent, and carried forward to the *next* year; so that, of the amount spent, only that portion will be charged to Profit and Loss that really relates to the *current* year. The adjustment may be made by means of a Journal entry, e.g. debiting an Unexpired Insurance Account and crediting Insurance Account; or it may be made in the Insurance Account itself, by crediting the unexpired amount on one side, and bringing it down as a debit balance on the other side. Not only is it necessary to apportion expenditure, but it is also necessary to apportion any income received in advance, such as Apprentice Premium, Royalties Received

in Advance, etc. The income received should be divided by the number of years over which it extends, and this will give the amount to be taken to Profit and Loss as the *current* year's share of such income. The adjustment may be made either in the Account itself, or by means of a Journal entry, e.g. in the case of Apprentice Premium, debiting Apprentice Premium Account and crediting an Unexpired Apprentice Premium Account. The former method is usually adopted in practice.

Reserves for Expected Losses. Of the Sundry Debtors a certain number may be more or less doubtful debts, and provision must be made therefor. This will be done by debiting Profit and Loss, and crediting a Bad Debts Reserve with the estimated amount, or with a certain percentage of the total debtors; or, alternatively, debiting Bad Debts Account and carrying the amount down to the credit. Again, the Sundry Debtors may be subject to cash discount. Provision is made for this loss by estimating the amount, or by taking a certain percentage of the *good* debts, i.e. the Sundry Debtors less the new Bad Debts Reserve. Such amount is then debited to Profit and Loss Account, and credited to an account entitled Reserve for Discount on Debtors; or, alternatively, debited to Discount Account and carried down to the credit. In addition to these two reserves, a Reserve for Income Tax should be made (in the case of a company) by debiting Profit and Loss Account, and crediting Reserve for Income Tax with the estimated amount of tax payable. A Reserve for Audit Fee is generally made, so that the auditor's charges may appear in the same set of accounts that he has been checking. Otherwise, the audit fee for one year would appear in the next year's accounts, as the auditor cannot send in his account before he has done the work.

Reserves for Expected Gains. If the Sundry Creditors are subject to cash discount, and are shown on the Balance Sheet at their full figure, it is quite evident the liabilities have been overstated. The amount of such discount is, therefore, estimated, or calculated by means of a certain percentage of the total creditors, and is then credited to Profit and Loss Account, and debited to an account entitled Reserve for Discount on Creditors; or, alternatively, credited to Discount Account and brought down to the debit.

Unused Stocks. It often happens at balancing time there are some unused stocks of printing and stationery, and of catalogues, sample books, circulars, posters and other advertising material. The value of these must be deducted from the amount spent for printing and stationery, advertising, etc., so that only the amount actually used is debited to Profit and Loss. These remarks will also apply to coal, fuel, etc. Only the amount actually used must be debited to Trading Account. The unused stocks of printing

and stationery, advertising material, coal, coke, fuel, etc., must be shown as assets on the Balance Sheet.

Depreciation of Assets. All the wasting assets must be depreciated, i.e. a certain amount must be written off their book value, as they are obviously worth less after each year's use. A fixed rate of 10 per cent is generally written off Plant and Machinery, about 5 per cent off Furniture, Fixtures, and Fittings, and 2½ per cent off Land and Buildings. No general schedule of rates can be laid down, however; and they will, consequently, vary according to circumstances. Such a loss is undoubtedly incurred, although indirectly, in the earning of the profit, and must be charged or set off against it. A Depreciation Account is opened and debited with the amounts written off, the asset accounts being credited. The Depreciation Account is then closed by transfer to Profit and Loss.

National Health Insurance, etc. This is an item which requires adjustment before the books are closed. By the National Health Insurance Acts, 1924–32, and the Widows', Orphans', and Old Age Contributory Pensions Acts, 1925–32, all *manual* workers aged 16 to 65, whatever their earnings, and, with few exceptions, all other workers whose remuneration does not exceed £250 per annum, are compelled to contribute, jointly with their employers, to the National Health and Pensions Insurance Fund. The employer buys sheets of Health Insurance stamps, for which he pays (normally) 1s. 8d. a stamp in the case of men, and 1s. 2d. a stamp in the case of women. Each week, however, he deducts (normally) one-half from the wages of each insured employee. The purchase of the stamps is debited to a Health Insurance Account. The wages paid are debited to a Wages Account, and the salaries to a Salaries Account; both accounts are, of course, below their actual figures owing to the deductions. The Health Insurance Account is also in excess of the proper amount, because part of the expenditure has been recovered from the workpeople themselves. An adjustment must be made debiting Wages Account and Salaries Account, and crediting Health Insurance Account, with the total of the deductions. This will raise the Wages Account and the Salaries Account to the proper sums, and, at the same time, reduce the Health Insurance Account to the amount actually borne by the employer. A similar adjustment must also be made for the other rates of contribution.

Unemployment Insurance. Unemployment insurance was first introduced in the National Insurance Act of 1911, but the scheme has since been amended and extended. Compulsory insurance against unemployment is now embodied in the Unemployment Insurance Acts, 1935 and 1938, and Unemployment Insurance (Agriculture) Act, 1936. It applies to persons who have reached the age at which they are no longer compelled to attend school and

are employed under a contract of service with a money payment. The weekly contribution required of employer and employed is set out in the following table—

	Employee.	*Employer.*	*Stamp.*
Men (21–65) . . .	9d.	9d.	1s. 6d.
Young Men (18–21) .	8d.	8d.	1s. 4d.
Boys (16–18) . . .	5d.	5d.	10d.
„ (14–16) . . .	2d.	2d.	4d.
Women (21–65) . .	8d.	8d.	1s. 4d.
Young Women (18–21) .	7d.	7d.	1s. 2d.
Girls (16–18) . . .	4½d.	4½d.	9d.
„ (14–16) . . .	2d.	2d.	4d.

As in the case of the Health Insurance Account, an adjustment will be necessary in order to raise the Wages Account and the Salaries Account to their proper figures, and to reduce the Unemployment Insurance Account to the amount that has to be borne by the employer.

Note on Health and Unemployment Insurance. The adjustments mentioned in the previous two paragraphs will be necessary only in the case of *large* firms and companies, who buy insurance stamps in quantities at a time. In the case of small firms, who buy the stamps as and when required, the procedure is to draw the full wages, and deduct the insured employees' contributions. To the deductions is added the amount of the firm's contributions, and with the total sum the requisite stamps are then duly purchased.

CLOSING ENTRIES

Definition. Closing entries are the Journal entries by means of which (*a*) the Stocks, Purchases, Sales, Returns, Wages, Coal and Coke, etc., are transferred to the Trading Account, (*b*) the various Gains and Losses to the Profit and Loss Account, (*c*) the net profit or loss, and the Drawings (if any) to the Capital Account.

How Accounts are Closed. Nominal accounts, i.e. those denoting gains and losses, are closed by transfer to Trading Account or Profit and Loss. Personal accounts, i.e. those of debtors and creditors, are usually closed by actual receipt or payment of the money. Real or Property accounts, i.e. Plant and Machinery, Fixtures, etc., are not closed, being merely balanced. To close an account with a debit balance, it must be *credited* with the amount required to make the two sides equal; and to close an account with a credit balance, it must be *debited* with the amount required to make the two sides equal. The accounts containing losses, being debit balances, must be credited "*By Profit and Loss*"; and the gains being credit balances, must be debited "*To Profit and Loss.*"

Formula for Closing Entries. In actual practice, the closing entries are frequently made direct from the Ledger accounts themselves to the Trading and Profit and Loss Account; but, in examination work, it is often necessary to know how to make the requisite Journal entries. All the items (except Stock at finish, adjustments,

etc.) are obtained from the Trial Balance. In business, the Stock at finish can be ascertained only by actual stock-taking, but in an exercise it is definitely stated. Sometimes, there is no Stock at start in the Trial Balance, and this fact greatly perturbs students. But it is quite in order. In the first year of business the capital may be all in money; everything has then to be bought; and so the first year's Trading Account will start with Purchases instead of Stock. There will, however, be a Stock at finish. The method of procedure is, therefore, as follows—

1. *Debit* Trading Account with the total of the following: Stock at start, Purchases less Returns, Wages, Carriage Inwards, Coal and Coke (if any), and *credit* each of these accounts.

2. *Credit* Trading Account with the total of Sales less Returns, Stock at finish, and *debit* the accounts named.

3. Subtract the *debit* total of Trading Account from the *credit* total of Trading Account, and the balance will be the *gross* profit.

4. Carry down the amount of the gross profit to the credit of the Profit and Loss Account, *debit* Discounts Received Account, and other Profit Accounts (if any) with their respective amounts, and *credit* Profit and Loss Account with the total of all these gains.

5. *Debit* Profit and Loss Account with the total of all the losses shown in the various accounts, and *credit* each of the latter.

6. Subtract the *debit* total of Profit and Loss Account from the *credit* total of Profit and Loss Account, and the balance will be the *net* profit.

7. *Debit* Profit and Loss Account, and *credit* Capital Account, with the amount of the *net* profit.

8. *Debit* Capital Account, and *credit* Drawing Account, with the amount of the Drawings (if any).

In the event of a *gross loss*, this will be debited to Profit and Loss along with the other losses, as stated in No. 5.

In the event of a *net loss*, Capital Account must be *debited*, and Profit and Loss Account *credited*, with the amount thereof—in fact, just the reverse procedure as for No. 7.

BALANCE SHEET

Definition. A Balance Sheet is a statement prepared from the books of a concern showing the debit and credit balances thereof, whether actual assets and liabilities or not, and the balance, whether of Capital, Reserve, or Profit, at a given date. An alternative definition is "a Balance Sheet is a statement drawn up at the end of each trading or financial period, setting forth the various assets and liabilities of the concern as at this date." It is also described as a classified summary of the debit and credit balances existing in the Ledger after the Profit and Loss Account has been

constructed. This is because a Balance Sheet often contains items which cannot, strictly speaking, be characterized either as assets or as liabilities.

What a Balance Sheet tells us. A properly drawn up Balance Sheet should give us information on four important points—

1. The nature and value of the assets.
2. The nature and extent of the liabilities.
3. Whether the firm is solvent.
4. Whether the firm is over-trading.

If the assets exceed the liabilities, the firm is solvent, that is, able to pay its debts in full. A business is, therefore, solvent by the amount of the capital in it, since Capital itself is the excess of assets over liabilities. The last point, No. 4, concerns the stability of the business. If the total of the debts due to Creditors (including Bank if an overdraft) is greater than the liquid assets (Cash, Investments, Bills, etc., i.e. the resources readily available to pay them), the position of the firm may be financially unsound. Where debts are being contracted without sufficient means of payment, the firm is said to be over-trading. Further, for the position to be quite sound, there should be some working capital, that is, some spare liquid assets available for current expenditure. It is not a wise policy to lock up the capital in fixed assets. It means that the firm must eventually resort to loans, the interest on which absorbs the profits. The concern may, therefore, be solvent without being sound.

Difference between a Trial Balance and a Balance Sheet. A Trial Balance is a list of *all* the Ledger balances, not only assets and liabilities, but also gains and losses. A Balance Sheet is a list of a *part* only of the Ledger balances, i.e. those remaining after the profit and loss items have been dealt with—the assets and liabilities.

Controversy re Form and Headings of Balance Sheet. In the Ledger, the Assets appear on the debit or left-hand side, and the Liabilities on the credit or right-hand side. Since the Balance Sheet purports to represent the state of affairs *as shown by the books* of the business, it follows that the assets and liabilities should appear on the same sides of the Balance Sheet as the sides they are on in the Ledger. But, in the English form of Balance Sheet, the sides are reversed. This is no doubt owing to the mistaken idea that the Balance Sheet is an *account*, whereas it is really only a *statement*. What may be said to be the more technically correct form is, however, in use by American, and by some English and Scotch accountants; but the mode of stating the assets on the right-hand side and the liabilities on the left is now almost universally accepted. Some accountants still maintain that the Balance

Sheet *is* an account, and one that shows the relation of the business to the proprietor and to outsiders; that the business must, therefore, be *credited* with its possessions, i.e. the assets, and *debited* with its liabilities (*a*) to outside persons or creditors; (*b*) to the proprietor for capital. Other accountants regard this as a lame attempt to justify an otherwise indefensible position, and characterize it as an extravagant and convenient fiction. The earlier writers on English book-keeping did not construct a Balance Sheet at all, but only a Balance Account, the sides of which corresponded exactly with the sides of the Ledger, viz. assets on the debit side and liabilities on the credit side. The prescribed Balance Sheet attached to the Companies Act, 1862, seems to have been responsible for fixing the present *form* of Balance Sheet. Not only upon the form, but also upon the nomenclature of the Balance Sheet, there has raged a protracted and, at times, acute controversy. A Balance Sheet, not being an account, does not require to be headed with the contractions "Dr." and "Cr."; while the words "To" and "By," prefixed to the liabilities and assets respectively, are equally superfluous. The headings "Assets" and "Liabilities" have also evoked much criticism. Although not entirely satisfactory, they are mainly correct. Other items, it is true, are met with which cannot be so classed, viz. Reserves, Sinking Funds, Preliminary Expenses, Income received in Advance, etc. Balance Sheets are sometimes met with in which the headings "Assets" and "Liabilities" have been omitted altogether. The suggested headings: *Capital Reserves and Liabilities; Property, Assets and Expenditure;* still fall short of exactness. *Liabilities and Sundry Credit Balances, Assets and Sundry Debit Balances,* would be nearer the mark; while the headings, *Ledger Credits, Ledger Debits,* would be exact designations though not very explanatory. In double-entry book-keeping, a business is regarded as a separate entity, that is, as existing apart from the proprietor of it. The Balance Sheet is, therefore, the Balance Sheet of the business, and not of the proprietor. That is why Capital is shown as a liability, being a *debt* due by the business to its proprietor. In his private Balance Sheet, the proprietor would show as one of his assets: "Capital in such and such a Business." This is quite in harmony with the principle of double entry.

Order of Stating Assets and Liabilities on a Balance Sheet. The question often arises, in the student's mind, as to the order in which the assets and liabilities should be entered on the Balance Sheet. Which should come first? Which should follow? Which should come last? And what is the reason for any particular order? Different methods are in vogue in business. By one method, the Assets are stated in the *order of realizability*, that is, the order in which they can be converted into Cash; while the Liabilities are

stated in the order in which they would be discharged, that is, paid off with the cash realized by the sale of the assets. The arrangement is as follows—

BALANCE SHEET

Liabilities				*Assets*			
Bills Payable . . .				Cash			
Loans				Investments . . .			
Creditors . . .				Bills Receivable . .			
Outstanding Expenses .				Debtors . . .			
Income Received in advance . . .				Stock-in-trade . .			
Partners' Advances . .				Plant and Machinery .			
Capital A/cs . . .				Furniture and Fixtures .			
				Land and Buildings .			
				Goodwill . . .			
				Unexpired Values . .			

By another method, the Assets and Liabilities are stated in the *order of permanence*, the fixed assets and liabilities taking precedence of the floating assets and liabilities.

The Balance Sheets of some commercial concerns, e.g. banks, partake of both methods, the Assets being stated in the Cash order, and the Liabilities in the order of permanence. Another variation is sometimes met with in practice. The floating assets and liabilities are marshalled first, but the Liabilities begin with the Creditors, and the Assets with the Debtors. Cash is sometimes placed next to the Bills Receivable, and sometimes last of all.

In the case of a bank the cash is put first as showing its stability—it being theoretically said that the first item strikes the eye most.

AMERICAN BALANCE SHEET

Assets				*Liabilities*			
Cash				Mortgages . . .			
Investments . . .				Bonds			
Real Estate . . .				Accounts payable . .			
Plant and Machinery .				Bills payable . . .			
Stock				Outstanding Expenses .			
Accounts receivable .				Capital . . .			
Bills receivable . .				Reserve . . .			
Goodwill . . .				Profit and Loss A/c .			
Patents, etc. . . .							

Worked Examples. We now propose to give two exercises, one fairly easy and one more difficult, on the preparation of a Trading and Profit and Loss Account and Balance Sheet, and to show the full working of the same. The student should not be content to follow the key mentally, but should actually work the exercise in his own books step by step with the key. He should then work and re-work the exercise without the assistance of the key, and should not pass on until he can do it accurately.

Example 1. From the following Trial Balance, extracted from the books of J. & J. Robinson, prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, 19.., and a Balance Sheet as on that date.

TRIAL BALANCE	Dr. £	s.	d.	Cr. £	s.	d.
James Robinson, Capital Account				5,000	–	–
Joshua " " "				4,000	–	–
James " Drawings Account	437	10	–			
Joshua " " "	246	11	7			
Land and Buildings	2,500	–	–			
Plant and Machinery	1,426	17	7			
Furniture and Fixtures	125	8	4			
Carriage	437	1	4			
Wages (Manufacturing)	2,147	6	1			
Salaries	467	10	–			
Bad Debts Reserve (as on 1st Jan., 19..)				247	6	2
Sales				9,122	16	9
" Returns	176	2	7			
Bank Charges and Interest	14	4	6			
Coal, Gas, and Water	72	1	7			
Rates and Taxes	84	7	6			
Discount Account (balance)				12	7	6
Purchases	4,216	17	2			
" Returns				846	2	2
Bills Receivable	127	10	–			
Trade Expenses	49	7	9			
Sundry Debtors	3,781	15	9			
Sundry Creditors				1,217	15	1
Stock (1st Jan., 19..)	2,642	14	8			
General Expenses	149	1	5			
Fire Insurance	49	15	–			
Apprentice Premium				50	–	–
Cash at Bank and in hand	1,344	4	10			
	£20,496	7	8	£20,496	7	8

Charge Depreciation on Land and Buildings Account at 2½ per cent, on Plant and Machinery Account at 10 per cent, and on

Furniture and Fixtures at 10 per cent. Make a reserve of 5 per cent on the Sundry Debtors for Bad Debts. Carry forward the following unexpired amounts—

(1) Fire Insurance	£12	7	2
(2) Rates and Taxes	24	2	6
(3) Apprentice Premiums . . .	40	–	–

Charge 5 per cent Interest on Capital but not on Drawings. Profits and Losses are to be shared in the following proportions: James Robinson, five-ninths, Joshua Robinson, four-ninths.

The value of the Stock as on 31st December, 19.., was agreed at £2,939 9s. 3d. (*Royal Society of Arts.*)

(I) Journal Entries for Adjustments

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19..							
Dec. 31	Depreciation	217	14	7			
	To Land and Buildings . .				62	10	–
	2½% of £2,500						
	To Plant and Machinery . .				142	13	9
	10% of £1,426 17s. 7d.						
	To Furniture and Fixtures .				12	10	10
	10% of £125 8s. 4d.						
" 31	Unexpired Fire Insurance . .	12	7	2			
	To Fire Insurance . . .				12	7	2
	Transfer of amount prepaid.						
" 31	Unexpired Rates and Taxes . .	24	2	6			
	To Rates and Taxes . .				24	2	6
	Transfer of amount prepaid.						
" 31	Apprentice Premium	40	–	–			
	To Unexpired Apprentice Premium				40	–	–
	Transfer of amount prepaid.						
" 31	Interest on Capital	450	–	–			
	To James Robinson, Capital A/c.				250	–	–
	5% on £5,000.						
	To Joshua Robinson, Capital A/c.				200	–	–
	5% on £4,000.						
" 31	Bad Debts Reserve	58	4	5			
	To Provision for Bad Debts .				58	4	5
	Old Reserve . . £247 6 2						
	Less New . . 189 1 9						

(2) Closing Entries

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19..		£	s.	d.	£	s.	d.
Dec. 31	Trading Account . . .	8,669	18	8			
	To Stock (at commencement) .				2,642	14	8
	„ Purchases . £4,216 17 2						
	Less Returns 846 2 2				3,370	15	–
	„ Carriage				437	1	4
	„ Wages				2,147	6	1
	„ Coal, Gas, and Water . .				72	1	7
	Balances transferred.						
„ 31	Sales . . . £9,122 16 9						
	Less Returns . 176 2 7	8,946	14	2			
	Stock (at close)	2,939	9	3			
	To Trading Account . . .				11,886	3	5
	Balances transferred.						
„ 31	Trading Account (gross profit) .	3,216	4	9			
	Discount	12	7	6			
	Apprentice Premium . £50						
	Less Amount c/f . 40	10	–	–			
	Bad Debts, Old Reserve £247 6 2						
	Less New Provision 189 1 9	58	4	5			
	To Profit and Loss Account .				3,296	16	8
	Balances transferred.						
„ 31	Profit and Loss Account . .	1,445	11	1			
	To Salaries				467	10	–
	„ Bank Charges . . .				14	4	6
	„ Trade Expenses . . .				49	7	9
	„ General Expenses . .				149	1	5
	„ Fire Insurance £49 15 –						
	Less Amount c/f 12 7 2				37	7	10
	„ Rates and Taxes £84 7 6						
	Less Amount c/f 24 2 6				60	5	–
	„ Depreciation—						
	Land and Buildings . .				62	10	–
	Plant and Machinery .				142	13	9
	Fixtures and Fittings .				12	10	10
	„ Interest on Capital—						
	James Robinson . .				250	–	–
	Joshua Robinson . .				200	–	–
	Balances transferred.						
„ 31	Profit and Loss Account . .	1,851	5	7			
	To Capital A/c, Jas. Robinson, $\frac{5}{9}$				1,028	9	9
	„ „ „ Josh. „ $\frac{4}{9}$				822	15	10
	Respective shares of profit transferred.						

JOURNAL—*continued*.

Date	Particulars	Dr. £	s.	d.	Cr. £	s.	d.
19.. Dec. 31	Capital A/c—James Robinson	437	10	–			
	To his Drawings A/c				437	10	–
	Balance transferred.						
„ 31	Capital A/c—Joshua Robinson	246	11	7			
	To his Drawings A/c				246	11	7
	Balance transferred.						

NOTE 1. As a distinction is made in the Trial Balance between Trade Expenses and General Expenses, the former may be debited to Trading Account. The student should provide a note explaining that such expenses have been assumed to be productive or manufacturing expenses.

TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDING 31ST DEC., 19—

Dr.	£	s.	d.	£	s.	d.	*Cr.*	£	s.	d.	£	s.	d.
To Stock (at start)				2,642	14	8	By Sales	9,122	16	9			
„ Purchases	4,216	17	2				*Less* Returns	176	2	7			
Less Returns	846	2	2								8,946	14	2
				3,370	15	–	„ Stock (at finish)				2,939	9	3
„ Carriage				437	1	4							
„ Wages				2,147	6	1							
„ Coal, Gas, and Water				72	1	7							
„ Balance (Gross Profit)				3,216	4	9							
				11,886	3	5					11,886	3	5
To Salaries				467	10	–	By Trading A/c (Gross Profit)				3,216	4	9
„ Bank Charges, etc.				14	4	6							
„ Trade Expenses				49	7	9	„ Discounts				12	7	6
„ General Expenses				149	1	5	„ Apprentice Premium	50	–	–			
„ Fire Insurance	49	15	–				*Less* Amount c/f	40	–	–			
Less Amount c/f	12	7	2										
				37	7	10					10	–	–
„ Rates and Taxes	84	7	6				„ Bad Debts Reserve	247	6	2			
Less Amount c/f	24	2	6				*Less* New Provision, 5% £3,781 15s. 9d.	189	1	9			
				60	5	–					58	4	5
„ Depreciation— Land and Buildings, 2½% £2,500	62	10	–										
Plant and Machinery, 10% £1,426 17s. 7d.	142	13	9										
Furniture and Fittings, 10% £125 8s. 4d.	12	10	10				The tendency, in modern practice, is to show in a separate continuation of the Profit and Loss Account the adjustments (partners' salaries, if any, and interest on capital) and divisions of profits between the partners.						
				217	14	7							
„ Interest on Capital— J. Robinson, 5% £5,000	250	–	–										
Jos. Robinson, 5% £4,000	200	–	–										
				450	–	–							
„ Balance (Net Profit)— Jas. Robinson, 5/9	1,028	9	9										
Jos. Robinson, 4/9	822	15	10										
				1,851	5	7							
				£3,296	16	8					£3,296	16	8

NOTE 2. Instead of showing the Returns as deduction from the Purchases and Sales as above, some accountants prefer to transfer the Returns to the Purchases Account and Sales Account respectively. The transfers would be made by Journal entries, thus—

		£	s.	d.	£	s.	d.
Dec. 31.	Sales Account	176	2	7			
„ 31.	To Sales Returns . . .				176	2	7
„ 31.	Purchases Returns	846	2	2			
„ 31.	To Purchases Account . .				846	2	2

BALANCE SHEET AS AT 31ST DEC., 19—

Liabilities.	£	s.	d.	£	s.	d.	*Assets.*	£	s.	d.	£	s.	d.
Sundry Creditors .				1,217	15	1	Cash at Bank and in hand . .				1,344	4	10
Unexpired Apprentice Premium .				40	–	–	Bills Receivable .				127	10	–
Capital Accounts— James Robinson,							Sundry Debtors .	3,781	15	9			
1st Jan. . .	5,000	–	–				*Less* Bad Debts Reserve . .	189	1	9			
Add Interest . .	250	–	–								3,592	14	–
„ Share of							Stock-in-trade . .				2,939	9	3
Profit . .	1,028	9	9				Furniture & Fixtures	125	8	4			
							Less Depreciation .	12	10	10			
	6,278	9	9								112	17	6
Less Drawings .	437	10	–				Plant and Machinery	1,426	17	7			
				5,840	19	9	*Less* Depreciation .	142	13	9			
Joshua Robinson,											1,284	3	10
1st Jan. . .	4,000	–	–				Land and Buildings .	2,500	–	–			
Add Interest .	200	–	–				*Less* Depreciation .	62	10	–			
„ Share of											2,437	10	–
Profit . .	822	15	10				Unexpired Fire Insurance . . .				12	7	2
	5,022	15	10				Unexpired Rates and Taxes . .				24	2	6
Less Drawings .	246	11	7										
				4,776	4	3							
			£	11,874	19	1				£	11,874	19	1

Example 2. A and B were in partnership as Manufacturing Ironmongers. Their Capital Accounts, as on 31st December 19.., were equal. The partnership agreement provided that A should take £300 of the profits before B received any share. The balance was to be divided equally between them. During the year ended 31st December, 19.., drawings were made by A at the rate of £50 a month, and by B at the rate of £6 a week.

On 31st December, 19.., the Ledger Balances, in addition to those of the Partners' Capital and Drawing Accounts, were as shown below.

On 31st December, 19.., the Stock in hand was valued and agreed at £6,928 4s. 6d., the Work in Progress was certified at £301 6s. 1d., and the Loose Tools at £406 13s. 2d.

You are required to prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, 19.., and a Balance Sheet as on that date. Before preparing these accounts, it is necessary to take the following matters into consideration—

1. The Auditors called the Partners' attention to the fact that

the Leasehold Premises had not been depreciated in the past. The lease has 15 years to run, and it is decided to write off the book value by equal annual instalments.

2. Ten per cent Depreciation is to be written off Plant and Machinery as on 1st January, and 5 per cent off the additions made during the year.

3. £50 depreciation is to be written off Furniture and Fittings.

4. Wages Account is found to include £47, paid to men who were occupied repairing machinery; and it is decided to transfer this amount to its proper account, and also to put through a transfer of £121 2s. 7d. as representing the cost of material used out of stock for such repairs.

5. The unexpired portions of Rates and Insurance were, on 31st December, 19.., £27 2s. 3d. and £14 0s. 1d. respectively.

6. It is decided to create a Reserve for Bad Debts amounting to 5 per cent on the Sundry Debtors.

NOTE. No interest on capital or drawings to be provided.

BALANCES OF LEDGER ACCOUNTS, 31ST DEC., 19..

	£	s.	d.
Cash at Bank	280	2	8
Cash in hand	37	15	2
Plant and Machinery (including additions during the year of £345 2s.)	4,018	2	1
Furniture and Fittings	273	14	7
Discount account (Debit Balance)	47	3	1
Manufacturing Wages	7,649	12	10
Salaries	962	13	6
Purchases	20,747	16	11
Carriage	467	4	9
Office Expenses	212	6	2
Postage and Stationery	42	15	1
Leasehold Buildings	1,500	–	–
Sales	34,242	12	7
„ Returns	347	13	7
Purchases Returns	742	12	–
Stock (1st Jan., 19..)	6,738	–	2
Sundry Debtors	9,261	12	6
Work in Progress (1st Jan., 19..)	276	14	11
Advertising	117	17	1
Bad Debts	135	2	7
Interest on Temporary Loan (repaid November)	6	7	10
Loose Tools (1st Jan., 19..)	431	14	2
Rent, Rates, and Taxes	346	15	3
Insurance	92	4	2
Commission	114	9	11
Lighting and Heating	102	4	7
Sundry Creditors	2,136	19	–

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(In a question such as the above, the student should, if time permits, prepare a Trial Balance.)

(1) Journal Entries for Adjustments

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Dec. 31	Depreciation	534	11	1			
	To Lease				100	–	–
	$\frac{1}{15}$ of £1,500						
	To Plant and Machinery . .				384	11	1
	10% £3,673 0s. 1d. = £367 6s., and 5% £345 2s. = £17 5s. 1d.						
	To Furniture and Fixtures .				50	–	–
	Amounts written off respectively.						
„ 31	Repairs	168	2	7			
	To Materials Used for Repairs .				121	2	7
	„ Wages				47	–	–
	For repairs to Machinery carried out by own workmen.						
„ 31	Unexpired Insurance . . .	14	–	1			
	To Insurance				14	–	1
	Balance carried forward.						
„ 31	Unexpired Rates	27	2	3			
	To Rent, Rates, and Taxes .				27	2	3
	Balance carried forward.						
„ 31	Provision for Bad Debts . .	463	1	8			
	To Bad Debts Reserve . .				463	1	8
	5% of Sundry Debtors, £9,261 12s. 6d.						

(2) Closing Entries

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Dec. 31	Trading A/c	35,521	11	9			
	To Stock				6,738	–	2
	„ Work in Progress . .				276	14	11
	„ Loose Tools.				431	14	2
	„ Purchases . £20,747 16 11						
	Less Returns 742 12 –				20,005	4	11
	„ Manufacturing Wages . .				7,602	12	10
	„ Carriage				467	4	9
	Balances transferred.						

JOURNAL—*continued*.

		Dr. £	s.	d.	Cr. £	s.	d.
19..							
Dec. 31	Sales . . . £34,242 12 7						
	Less Returns . 347 13 7						
		33,894	19	–			
	Materials Used for Repairs . .	121	2	7			
	Stock	6,928	4	6			
	Work in Progress . . .	301	6	1			
	Loose Tools.	406	13	2			
	To Trading A/c . . .				41,652	5	4
	Balances transferred.						
,, 31	Trading A/c	6,130	13	7			
	To Profit and Loss A/c . .				6,130	13	7
	Gross Profit transferred.						
,, 31	Profit and Loss A/c . . .	3,304	12	3			
	To Discount				47	3	1
	,, Salaries				962	13	6
	,, Office Expenses . . .				212	6	2
	,, Postage and Stationery .				42	15	1
	,, Advertising . . .				117	17	1
	,, Bad Debts				135	2	7
	,, Interest on Loan . . .				6	7	10
	,, Rent, Rates, and Taxes .				319	13	–
	,, Insurance				78	4	1
	,, Commission. . . .				114	9	11
	,, Lighting and Heating . .				102	4	7
	,, Depreciation . . .				534	11	1
	,, Repairs				168	2	7
	,, Provision for Bad Debts .				463	1	8
	Balances transferred.						
,, 31	Profit and Loss A/c . . .	300	–	–			
	To A—Capital A/c . . .				300	–	–
	Preferential claim on profits.						
,, 31	Profit and Loss A/c . . .	2,526	1	4			
	To A—Capital A/c . . .				1,263	–	8
	,, B—Capital A/c . . .				1,263	–	8
	Respective shares of profit transferred.						
,, 31	A—Capital A/c	600	–	–			
	To his Drawings A/c . . .				600	–	–
	Balance transferred.						
,, 31	B—Capital A/c	312	–	–			
	To his Drawings A/c . . .				312	–	–
	Balance transferred.						

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19— *Cr.*

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Stock, 1st Jan.				6,738	–	2	By Sales	34,242	12	7			
„ Work in Progress, 1st Jan.				276	14	11	*Less* Returns	347	13	7	33,894	19	–
„ Loose Tools, 1st Jan.				431	14	2	„ Materials used for Repairs				121	2	7
„ Purchases	20,747	16	11				„ Stock, 31st Dec.				6,928	4	6
Less Returns	742	12	–	20,005	4	11	„ Work in Progress, 31st Dec.				301	6	1
„ Manufacturing Wages	7,649	12	10				„ Loose Tools, 31st Dec.				406	13	2
Less Transfer to Repairs A/c	47	–	–	7,602	12	10							
„ Carriage				467	4	9							
„ Balance (Gross Profit) c/d				6,130	13	7							
				41,652	5	4					41,652	5	4
To Discount				47	3	1	By Balance (Gross Profit) b/d				6,130	13	7
„ Salaries				962	13	6							
„ Office Expenses				212	6	2							
„ Postage and Stationery				42	15	1							
„ Advertising				117	17	1							
„ Bad Debts				135	2	7							
„ Interest on Loan				6	7	10							
„ Rent, Rates, and Taxes	346	15	3										
Less Amount c/f	27	2	3	319	13	–							
„ Insurance	92	4	2										
Less Amount c/f	14	–	1	78	4	1							
„ Commission				114	9	11							
„ Lighting and Heating				102	4	7							
„ Depreciation— Lease, $\frac{1}{15}$ of £1,500				100	–	–							
Plant and Machinery, 10% £3,673 0s. 1d.	367	6	–										
Plant and Machinery, 5% £345 2s.	17	5	1	384	11	1							
„ Furniture and Fixtures				50	–	–							
„ Repairs— Materials used	121	2	7										
Wages paid	47	–	–	168	2	7							
„ Provision for Bad Debts, 5% £9,261 12s. 6d.				463	1	8							
„ Balance (Net Profit) c/d				2,826	1	4							
				£6,130	13	7					£6,130	13	7
To A—Capital A/c as per agreement				300	–	–	By Balance (Net Profit) b/d				2,826	1	4
„ Balance— A—Cap'l A/c, $\frac{1}{2}$	1,263	–	8										
B— „ „ $\frac{1}{2}$	1,263	–	8	2,526	1	4							
				£2,826	1	4					£2,826	1	4

BALANCE SHEET AS AT 31ST DEC., 19—

Liabilities.	£	s.	d.	£	s.	d.	*Assets.*	£	s.	d.	£	s.	d.
Sundry Creditors .				2,136	19	–	Cash in hand . .	37	15	2			
Capital Accounts—							Cash at Bank . .	280	2	8			
A—1st Jan., 19—	9,000	–	–								317	17	10
Add Share of							Sundry Debtors .	9,261	12	6			
Profit . .	1,563	–	8				*Less* Bad Debts						
							Reserve . .	463	1	8			
	10,563	–	8								8,798	10	10
Less Drawings .	600	–	–				Stock . . .				6,928	4	6
				9,963	–	8	Work in Progress .				301	6	1
B—1st Jan., 19—	9,000	–	–				Loose Tools . .				406	13	2
Add Share of							Furniture and Fix-						
Profit . .	1,263	–	8				tures . .	273	14	7			
							Less Depreciation	50	–	–			
	10,263	–	8								223	14	7
Less Drawings .	312	–	–				Leasehold Buildings	1,500	–	–			
				9,951	–	8	*Less* Depreciation	100	–	–			
											1,400	–	–
							Plant and Machinery	4,018	2	1			
							Less Depreciation	384	11	1			
											3,633	11	–
							Unexpired Rates .				27	2	3
							Unexpired Insurance				14	–	1
			£	22,051	–	4				£	22,051	–	4

Another method of adjustment is, to transfer the £121 2s. 7d. (Materials used for Repairs) to the Purchases Account and state the amount net—also to set the £406 13s. 2d. against the £431 14s. 2d. (Loose Tools), showing a net figure of £25 1s. as "Consumption of tools," or "Tools used." Similarly, "Work in progress" is frequently adjusted with sales, and the item described as "Production."

SPECIAL POINTS TO WATCH IN EXERCISES

Period Covered by the Trading and Profit and Loss Account. This is a point that should be carefully noted by the student. If it is not definitely stated, it can usually be ascertained by comparing the dates of the Stock at start and the Stock at finish. Sometimes, the rates for depreciation and the rate of interest on capital are stated to be *per annum*, and if the period covered by the Trading and Profit and Loss Account is only six months, i.e. for the half-year, such rates must be dealt with accordingly. The percentage for the Bad Debts Reserve or Discount Reserve, however, will not be affected. If these are given as 5 per cent, they will be 5 per cent (actual) of the Sundry Debtors, whether the Account is for six or for twelve months, the period of time making no difference to these particular items.

Adjustments in the Trading Account. Students who are accustomed to working exercises in which the whole of the adjustments affect merely the Profit and Loss Account, are often greatly disconcerted by an exercise which requires adjustments in the Trading Account. They get their Trading Account balanced and ruled off, and their gross profit brought down to the Profit and

Loss Account, and towards the end of the exercise may discover some adjustments for the Trading Account. It is true such adjustments do not often occur, but they may. There may be Wages owing, Freight, Carriage, etc., due. Students should not take it for granted that all the adjustments are for the Profit and Loss Account; they should look through them and make quite sure before balancing their Trading Account.

Interest on Capital. In some exercises interest on capital is not shown in the adjustments which are duly set out and numbered. It will be found mentioned in the reading matter either at the beginning or end of the exercise. Students are, therefore, apt to overlook it, and consequently bring out the wrong net profit and produce an inaccurate Balance Sheet.

Interest on Loan. Sometimes the Trial Balance in the exercise will contain the item, "Interest on Loan (for half-year)." If the period covered by the Trading and Profit and Loss Account is one year, then the other half-year's interest must be worked out and put in the Profit and Loss Account, whether it is mentioned in the adjustments or not, because a year's accounts must contain a year's interest if the loans have been outstanding for the year.

Stock at Finish in the Trial Balance. This occurs only when there is a Materials Consumed Account in the Trial Balance or List of Balances. Its special treatment under such circumstances has been pointed out in our remarks on the contents of the Trading Account, to which the student should refer (page 30).

Bad Debts Not Written Off. In some exercises the Bad Debts have not been written off, and the student is told to do this. The student thinks it quite simple, and promptly puts them in the Profit and Loss Account. More often than not, however, he fails to complete the double entry by making a corresponding deduction from the Sundry Debtors, with, of course, disastrous effects on the accuracy of his work. For example, take the following Trial Balance (purposely condensed)—

TRIAL BALANCE

	Dr. £	s.	d.	*Cr.* £	s.	d.
Sundry debit balances	5,082	–	–			
Sundry Debtors	2,560	–	–			
Sundry credit balances. . . .				7,642	–	–
	7,642	–	–	7,642	–	–

Suppose the Bad Debts not written off are £60, and that a Bad Debts Reserve of 5 per cent is required to be made. The Bad

Debts Reserve would be 5 per cent of £2,500, and not 5 per cent of £2,560. In the Balance Sheet, therefore, we should have—

Sundry Debtors . . .	£2,500	
Less Bad Debts Reserve .	125	
		£2,375,

not

Sundry Debtors . . .	£2,560	
Less Bad Debts Reserve .	128	
		£2,432.

When the Bad Debts are written off, the Sundry Debtors will be reduced to £2,500, and this point seems to be quite unnoticed by the majority of students, who are greatly surprised when the Balance Sheet totals do not agree.

Depreciation. Sometimes Depreciation figures in the Trial Balance, a corresponding amount having already been written off some asset or assets. Students who have been accustomed to show the assets in the Balance Sheet, *less* depreciation, do so in this particular instance, and, of course, find subsequently that the Balance Sheet totals do not correspond. The asset, in this case, must be shown in the Balance Sheet at the same figure as it stands at in the Trial Balance; or, if it is desired to show the asset *less* depreciation, the depreciation must be added back again to the asset and then deducted. For example, take the following Trial Balance (purposely condensed)—

TRIAL BALANCE

	Dr. £	s.	d.	*Cr.* £	s.	d.
Sundry debit balances	7,206	–	–			
Plant and Machinery	1,350	–	–			
Depreciation of Plant and Machinery .	150	–	–			
Sundry credit balances. . . .				8,706	–	–
	8,706	–	–	8,706	–	–

The Depreciation of Plant would be transferred to the Profit and Loss Account, and the Plant and Machinery would be shown in the Balance Sheet thus—

Plant and Machinery .		£1,350,

or

Plant and Machinery . .	£1,500	
Less Depreciation . .	150	
		£1,350,

but not

Plant and Machinery . .	£1,350	
Less Depreciation . .	150	
		£1,200,

which is the mistake many students make. As the Depreciation appears in the Trial Balance, it must have been written off the Plant and Machinery, for there could not be one-sided entries in the Ledger. The asset is, therefore, at its net figure and must not be further reduced.

Loose Tools. In engineering works, iron foundries, and similar concerns it is the practice to make their own loose tools. At balancing time, stock is taken of these tools in the same way as stock of goods. The student will thus find in such exercises two stocks of Loose Tools, a Stock at start and a Stock at finish. These should be treated in the same way as Stock-in-trade; the opening stock should be debited to Trading Account, and the closing stock should be credited to Trading Account and shown on the assets side of the Balance Sheet. The reason for this is that the materials for making the tools, and the cost of making them, i.e. the wages of workmen, have been debited to Trading Account, and any increase or decrease in the stock of tools should properly be dealt with in the same account. Alternatively, the difference between the two stocks of Loose Tools may be shown as Depreciation or Appreciation in the Profit and Loss Account.

ADJUSTMENTS AND THE BALANCE SHEET

Outstanding Liabilities. Numbers of students are constantly getting their Balance Sheet wrong on account of the adjustments. They must remember that items in the Trial Balance are dealt with only *once*, either in the Profit and Loss Account *or* in the Balance Sheet; but that items outside the Trial Balance, i.e. the adjustments to be made, are dealt with *twice*, both in the Profit and Loss Account *and* also in the Balance Sheet, in order to complete the double entry. For instance, Rent as an item in the Trial Balance would be debited to Profit and Loss and would then be finished with; but Rent as an item outside the Trial Balance, i.e. an adjustment to be provided for, would not only be debited to Profit and Loss Account, but would also be shown as Outstanding Rent on the Balance Sheet. The same item may, therefore, be treated differently in two different exercises. It does not, however, depend on the item itself, but on the *position* of the item, i.e. whether it is in the Trial Balance or List of Balances, or whether it is an adjustment outside it. Suppose we were told in an exercise to make a Journal entry for some Rent due, the journal entry would be—

Rent	*Dr.*
To Outstanding Rent	*Cr.*

The Rent would be posted to the Rent Account, the total of which would be debited to Profit and Loss, while an Outstanding Account would be opened in the Ledger and would appear on the

liabilities side of the Balance Sheet. The point is, that the double entry must still be made for all adjustments whether Journal entries are constructed for them or not. That is to say, debit Profit and Loss with the item and show the latter as Outstanding Rent in the Balance Sheet. Students must remember that charging Rent and other losses against profits does not *pay* them; they remain liabilities until they are paid in cash.

Apportionments. Likewise with the apportionments, i.e. the amounts prepaid, or received in advance, and carried forward to the next year, these must also be shown on the Balance Sheet. When *losses* are carried forward, as, for instance, unexpired insurance, rates, etc., they are put on the *assets* side of the Balance Sheet; and when profits are carried forward, as, for instance, unexpired apprentice premium, they are put on the *liabilities* side of the Balance Sheet. We do not make actual assets or liabilities of them. Losses carried forward come on the assets side simply because losses and assets are both *debit* balances. And profits carried over come on the liabilities side simply because profits and liabilities are both *credit* balances.

Common Errors. As in the intermediate stage the students' great difficulty is to make the Trial Balance agree, so also in the advanced stage their great difficulty is to make the Balance Sheet agree. The outstanding liabilities are frequently omitted; and the apportionments are either omitted, or else placed on their wrong sides. The wrong Stock is often entered in the Balance Sheet. It should *not* be the Stock in the Trial Balance, but the Stock at finish. Sometimes the disagreement of the Balance Sheet totals is caused by the omission of the Stock-in-trade altogether. In other cases, the Balance Sheet will not agree because the wrong Bad Debts Reserve has been deducted, namely, the old Reserve instead of the new one, i.e. the one to be made; or else merely the amount debited or credited to Profit and Loss in order to adjust the two reserves has been shown as the actual Reserve itself. For example—

Dr. PROFIT AND LOSS ACCOUNT

To Bad Debts Reserve 5% £5,000 .	£250	
Less Old Reserve	120	
		£130,

and then in Balance Sheet—

Sundry Debtors	£5,000	
Less Bad Debts Reserve . .	130	
		£4,870,

instead of

Sundry Debtors	£5,000	
Less Bad Debts Reserve . .	250	
		£4,750,

which is the correct amount.

QUESTIONS ON CHAPTER II

A

1. Explain the meaning of the terms " profit " and " loss," distinguishing between " gross " and " net " in each case.

2. What is the difference between " turnover " and " output "? Explain what is meant by " percentage of gross and net profit on turnover." Why is the percentage not calculated on cost?

3. What is a Trading Account, and of what items is it usually comprised?

4. Distinguish between a Trading and (*a*) a Profit and Loss Account, (*b*) a Cost Account, (*c*) a Manufacturing Account.

5. State what the following items in a Trading Account represent: (1) Stock, (2) Work-in-Progress, (3) Purchases, (4) Sales.

6. What is meant by a " Materials Consumed Account," and how is the amount arrived at? Show, by means of *pro forma* examples, the difference in a Trading Account with and without this item.

7. Explain the meaning of the following items: (1) Dock Charges, (2) Duty, (3) Freight, (4) Carriage, (5) Cartage. When are these items charged to Trading Account, and when to Profit and Loss Account?

8. Explain the meaning of " productive wages." Why should they be charged to Trading Account? Illustrate your answer by means of examples.

9. How are Wages distinguished from Salaries?

10. Explain the following: Manufacturing Charges, Royalties, Motive Power, Fuel, Consumable Stores. Should these be charged to Trading Account or to Profit and Loss Account? Give reasons for your answer.

11. What considerations enter into the question as to whether Packages and Packing Material should be charged to Trading Account or to Profit and Loss Account? How is Rent of Factory dealt with?

B

1. What is a Profit and Loss Account, and how does it differ from a Trading Account?

2. Explain the meaning of the following items when they appear in a Profit and Loss Account: Dock Charges, Duty, Freight, Carriage, Cartage.

3. Why do Rent, Rates, and Taxes, and Ground Rent appear in the Profit and Loss Account? How should Ground Rent be treated when it has been paid *less tax*? How would you deal with Rent received from sub-lettings?

4. What are Salaries, and how do they differ from Wages? To what account would you charge the item " Salaries and Wages," and why?

5. What is meant by Discount? Explain the terms " Discounts Allowed," " Discounts Received," " Discounts on Sales," " Discounts on Purchases." What different methods of treatment are in vogue with respect to the last two items?

6. What do the following items denote: Interest, Commission, Bank Charges? Into what two accounts are each of the former usually divided, and why?

7. Explain the meaning of the following: Insurance, Advertising, Repairs, Travelling Expenses, and Horsekeep, and why they are charged to Profit and Loss.

8. What is meant by Office Expenses and Trade Expenses? What variation of treatment exists with respect to the latter item?

9. What are Bad Debts, and how should they be treated? How would you deal with any Bad Debts written off and subsequently recovered?

C

1. Explain the meaning of the phrase, " Adjustments at balancing time." Give examples.

2. What outstanding liabilities have usually to be provided for at balancing time? What accruing income must also be brought to account?

3. What apportionments are usually necessary at the time of closing the books, and why? How is the Balance Sheet affected by such apportionments?

4. Explain what adjustments come under the following headings—
   (a) Reserves for Expected Losses.
   (b) Reserves for Expected Gains.

5. Why must Interest on Capital and Depreciation of Assets be charged against profits?

6. What adjustments are rendered necessary at balancing time, (a) through unused stocks of stationery, advertising material, etc., on hand, (b) through national health and unemployment insurance?

7. What are closing entires? How are the following accounts closed: (a) Personal accounts, (b) Real accounts, (c) Nominal accounts?

8. Explain the term "Balance Sheet." What information should it afford? How does it differ from a Trial Balance?

9. What controversy is there respecting (a) the form of the English Balance Sheet, (b) the headings "Dr." and "Cr.," and the words "To" and "By"?

10. What two methods are there of marshalling the assets and liabilities on a Balance Sheet? Illustrate your answer by means of *pro forma* examples. What variations are sometimes met with?

EXERCISE II

1. Messrs. Brown & Phillips are equal partners in a business trading under the style of The Pimlico Cycle Co. On the 31st December their book-keeper extracted the following balances from the books—

Cash at Bank, £3,990; Plant and Machinery, £6,880; Stock of Machines, 1st Jan., £7,858; Materials on hand, 1st Jan., £2,730; Sales during the year, £188,680; Sundry Debtors, £6,556; Agents' Commission, £4,890; P. Brown, Capital Account, £5,358; R. Phillips, Capital Account, £4,900; Workmen's Wages, £26,798; Business Premises, £2,500; Bills Payable, £3,840; Cash Creditor, £4,000; Materials Purchased, £139,920; Sundry Creditors, £4,462; General Expenses, £720; Travellers' Salaries, £3,520; P. Brown, Drawings Account, £1,120; R. Phillips, Drawings Account, £900; Bad Debts written off, £958; Rents, Rates, and Taxes, £1,900.

The following adjustments are necessary—

5 per cent Depreciation off Plant and Machinery; one year's Interest due to Cash Creditor at 5 per cent per annum; Bad Debts estimated at £320; Commission due to Agents, £700; Interest on Capital at 5 per cent per annum. The Stocks on hand at 31st December were—

Materials, £1,860; Machines, £6,250.

Prepare Trial Balance, Trading and Profit and Loss Account, and Balance Sheet as at 31st December.

2. Messrs. Wolfe, Harvey, & Co. are in partnership, sharing profits equally. On the 30th June the following balances stood in their books—

Lease of Premises (15 years to run), £3,000; Stock, 1st July, £9,262; Bills Payable, £6,902; Sundry Creditors, £11,224; Sales, £51,558; Discounts Received, £766; Purchases, £44,662; Bad Debts, £152; Advertising, £2,160; R. Wolfe, Capital Account, £23,120; T. Harvey, Capital Account, £19,570; Cash at Bank, £1,886; Rent, Rates, and Taxes, £1,396; Discounts Allowed, £1,082; Bills Receivable, £940; Salaries, £1,700; R. Wolfe, Drawings Account, £1,400; T. Harvey, Drawings Account, £1,300; Trade Expenses, £1,098; Cash in hand, £100; Plant and Machinery, £10,656; Bad Debts Reserve, 1st July, £420; Wages (manufacturing), £6,838; Sundry Debtors £25,928.

The following adjustments are necessary—

Interest on Capital at 5 per cent per annum; Bad Debts Reserve, £500; Depreciation of Plant and Machinery at 5 per cent; Advertising paid in advance, £100; Rent, Rates, and Taxes owing, £290; Stock, 30th June, £19,514.

Prepare Trading and Profit and Loss Account for the year ending 30th June, and a Balance Sheet as at that date.

3. On 31st December, 19.., the following was the Trial Balance of the Call Manufacturing Co., Ltd. The Nominal Capital of the company was £20,000, divided into 20,000 Ordinary Shares of £1 each. Adjustments to incorporate are—

(*a*) 10 per cent Depreciation off Plant and Machinery.

(*b*) 5 per cent Depreciation off Furniture and Fittings.

(*c*) The Reserve for Bad Debts to be made up to 5 per cent of Debtors.

(*d*) Insurance unexpired on 31st December, £5 10s. 6d.

(*e*) A portion of premises owned by the company was sublet as from 1st July, 19.., at an annual rental of £50, but no rent has been paid by sub-tenant, or passed through the books.

(*f*) Stock, 31st December, 19.., £4,402 1s. 5d.

Prepare Trading and Profit and Loss Account, and Balance Sheet.

TRIAL BALANCE

	£	*s.*	*d.*		£	*s.*	*d.*
Final Call	250	–	–				
Freehold Premises	3,200	–	–				
Rates, Taxes, and Insurance	472	10	7	Capital A/c— 16,000 Shares, fully called	16,000	–	–
Office and Management Salaries	1,292	10	6	Profit and Loss A/c— (Balance previous 31st December)	217	5	–
Office Expenses	217	14	11	Discount	14	7	3
Manufacturing Expenses	192	–	4	Sales	20,314	17	10
Stock, 1st January	3,714	19	–	Returns Outwards	196	19	5
Manufacturing Wages	6,901	1	9	Sundry Creditors	3,410	5	9
Purchases	10,617	15	4	Bills Payable	984	8	1
Returns Inwards	307	12	9	Transfer Fee		2	6
Carriage Inwards	471	10	4	Reserve for Bad Debts	315	9	4
Carriage on Sales	314	–	11				
Sundry Debtors	8,617	5	–				
Factory Fuel and Power	172	19	5				
Lighting and Heating	74	16	1				
Goodwill	2,000	–	–				
Audit Fees and Legal Expenses	124	4	9				
Travelling Expenses	96	4	11				
Plant and Machinery	1,942	13	4				
Repairs	89	14	9				
Furniture and Fittings	134	6	8				
Cash at Bank	246	9	10				
„ in Hand	3	4	–				
Total of *Debits*	41,453	15	2	Total of *Credits*	41,453	15	2

(*R.S.A.*)

4. Messrs. Rice & Baxter entered into partnership on the 1st January with a Capital of £30,000, £20,000 of which was contributed by P. Rice and £10,000 by F. Baxter. It was agreed that profits should be shared in proportion

to capital introduced, and the Drawings of the partners should be: Rice, £400, and Baxter, £200 per quarter on account of accruing profit. Should either partner draw more than the agreed amount, he was to be debited with not less than one quarter's Interest on the sum drawn in excess. Each partner was to be entitled to Interest on his Capital at 5 per cent per annum. A Bad Debts Reserve of 2½ per cent of the Sundry Debtors was to be created.

The Stock at 31st December was valued at £12,857 0s. 10d.

From the above particulars and the following Balances, prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as at that date—

P. Rice, Capital A/c	£20,000	Trade Charges	£460
F. Baxter, Capital A/c	10,000	Sundry Debtors	17,078
Cash at Bank	2,418	Returns Outwards	1,756
„ on Deposit	1,000	P. Rice, Drawings A/c	1,600
Purchases	35,640	F. Baxter, Drawings A/c	1,000
Sundry Creditors	3,920	Rent owing . . *Cr.*	160
Rent, Rates, and Taxes	700	Interest and Discount *Dr.*	270
Bills Payable	2,690	Salaries	1,200
Furniture and Fixtures	500	Returns Inwards	2,460
Sales	29,360	Bills Receivable	3,560

5. The X. L. Manufacturing Co., Ltd., has an authorized share capital of £25,000, divided into 10,000 6 per cent Preference Shares and 15,000 Ordinary Shares, all of £1 each. From the following, prepare Trading and Profit and Loss Account, and Balance Sheet as at 31st March, 19...

TRIAL BALANCE

DEBITS	£	s.	d.	*CREDITS*	£	s.	d.
Freehold Land and Buildings	8,650	–	–	Preference Share Capital	10,000	–	–
Fixed Plant and Machinery	5,920	–	–	Ordinary Share Capital	15,000	–	–
Coal and Coke	2,650	–	–	5 per cent Debentures	6,000	–	–
Discounts	851	–	–	Bank Overdraft	2,640	–	–
Goodwill	5,000	–	–	Sundry Creditors	2,146	–	–
Purchases NET	11,920	–	–	Sales NET	30,608	–	–
Loose Tools and Utensils	2,280	–	–	Reserve	1,000	–	–
Stock previous 1st April	8,621	–	–	Profit and Loss A/c previous 1st April	974	–	–
Fixtures and Office Furniture	250	–	–				
Sundry Debtors	8,240	–	–				
Bills Receivable	971	–	–				
Wages	9,897	–	–				
Salaries and Commission	1,266	–	–				
Rent, Rates, Taxes, and Insurance	893	–	–				
Bank Charges	138	–	–				
Directors' Fees	200	–	–				
Debenture Interest, *less* Tax	255	–	–				
Sundry Expenses	186	–	–				
Bad Debts	98	–	–				
Cash in Hand	82	–	–				
	68,368	–	–		68,368	–	–

Depreciate Fixed Plant and Machinery at 5 per cent and loose tools and utensils at 7½ per cent. Reserve 5 per cent of total debtors for discount. Final Stock was £8,102. (*U.L.C.I.*)

6. On the 30th June, Messrs. Lewis & Co. extracted the following Balances from their books—

P. Lewis, Capital A/c	£7,012	Cash in hand	£20
T. Smithers, Capital A/c	5,010	Petty Expenses	312
Wages of Workmen	5,340	Bad Debts	119
Gas and Electric Light	80	,, ,, added to Reserve	100
Commission and Discount	420	Salaries	1,000
Debtors for Rent	50	Purchases	28,381
Bills Receivable	781	Sundry Creditors	6,245
Bills Payable	1,970	P. Lewis, Drawings A/c	1,000
Stock, 1st July	9,645	T. Smithers, Drawings A/c.	400
Freight and Carriage	158	Sundry Debtors	9,036
Sales	37,500	Rent, Rates, and Taxes	1,500
Bad Debts Reserve	230	Travelling Expenses	364
Bank Overdraft	739		

Stock on hand 30th June was valued at £11,774 18s. 4d. Provide for Salary £300 to be credited to T. Smithers. Profits are to be divided—seven-twelfths to Lewis and five-twelfths to Smithers. Prepare Trading and Profit and Loss Account and Balance Sheet as at 30th June, after allowing Interest on Capital at 5 per cent per annum.

7. From the following Balances and the undermentioned particulars, prepare Messrs. Rocklyn & Co.'s Trading and Profit and Loss Account for the year ended 30th September, and a Balance Sheet as on that date—

Purchases	£18,682	R. Rocklyn, Capital A/c	£10,840
Bad Debts	196	,, Drawings A/c.	800
Sales	49,240	P. Farmley, Capital A/c	10,306
Repairs and Renewals	1,140	,, Drawings A/c.	700
General Expenses	920	Extension of Works	3,000
Coal and Coke	1,040	Rents Received	300
Sundry Debtors	9,300	Cash in hand	80
Travellers' Salaries and Commission	1,300	Rates and Taxes	760
		Cash at Bank	3,120
Discounts allowed	860	Clerks' Salaries	960
Trade Creditors	3,080	Wages of Workmen	6,338
Stock, 1st Oct.	7,960	Discounts Received	390
Plant and Machinery	7,000	Premises	10,000

Make a Bad Debts Reserve of £460, a Discount Reserve on Debtors of 2½ per cent; credit Interest on Capital at 5 per cent per annum; depreciate Plant and Machinery 5 per cent. Stock on hand, 30th September, valued at £3,372. Profits and losses to be shared equally.

8. The following Balances appear in the books of Norman Lockell on 31st December—

Freehold Premises, £6,000; Wages of Workmen, £11,782; Bills Payable, £5,140; Consignments Outwards at cost and still unsold, £1,800; Discounts, *Dr.* balance. £572; Bills Receivable, £1,558; Loan from Bankers, £4,000; Norman Lockell, Capital Account, £25,300; Drawings Account, £2,400; Purchases, £25,360; Advances on Consignments, £1,000; Fire Insurance (£20 prepaid), £90; Stock, 1st Jan., £9,570; Rents Received, £200; Salaries, £2,920; Cash in hand, £300; Machinery and Plant, £7,640; Sales (including consignments), £44,970; General Expenses, £940; Returns

Inwards, £3,190; Sundry Debtors, £13,208; Sundry Creditors, £7,720; Rent, Rates, and Taxes, £1,000.

Make the following adjustments—

Bad Debts Reserve, 5 per cent Debtors; Interest on Capital, 5 per cent per annum; Interest due to Bank, £100; Depreciation of Premises, £100; Depreciation of Plant and Machinery, 10 per cent per annum.

The Stock at 31st December was valued at £16,174.

Prepare Trading and Profit and Loss Accounts for the year ended 31st Dec., and a Balance Sheet as on that date.

9. W. Price and E. Ackworth were in partnership as engineers. The Partnership Agreement provided that profits and losses were to be shared equally, and that 5 per cent interest was to be charged on Capital, but not on Drawings. On 31st March the Trial Balance was taken out. Prepare "Final Accounts" for the year ended 31st March, 19... The following adjustments must be made: (*a*) Depreciation—10 per cent off Plant and Machinery, etc. (*b*) Reserve for Bad Debts, 2½ per cent of Sundry Debtors. (*c*) Reserve for a Quarter's Rent, £50. (*d*) Insurance unexpired on 31st March, 19.., £7 3s. 4d. (*e*) Stock, 31st March, 19.., £1,658 14s. 9d.

TRIAL BALANCE

DEBITS	£	s.	d.	*CREDITS*	£	s.	d.
Plant, Machinery, and Fixtures	5,672	13	4	W. Price's Capital	5,696	10	–
Factory Fuel and Power	54	6	2	E. Ackworth's Capital	3,626	3	4
Office Salaries	374	10	6	Sales	12,617	15	–
Lighting and Heating	39	5	7	Sundry Creditors	2,267	16	9
Travelling	92	6	7	Purchases Returns	317	6	7
Carriage on Sales	95	18	9	Bills Payable	642	3	4
Cash at Bank	112	6	6				
,, in Hand	6	7	3				
Sundry Debtors	4,796	10	–				
Purchases	8,329	4	1				
Manufacturing Wages	991	9	10				
Rent, Rates, and Taxes	276	14	9				
Office Expenses	271	14	4				
Carriage Inwards	89	15	5				
Discount	42	7	9				
W. Price—Drawings	396	10	–				
E. Ackworth's do.	285	14	6				
Stock previous 31st March	2,172	11	3				
Manufacturing Expenses	267	19	8				
Sales Returns	742	2	6				
Insurance	57	6	3				
	25,167	15	–		25,167	15	–

(*R.S.A.*)

10. Messrs. Perry & Ruston are in partnership sharing profits three-fifths and two-fifths respectively. From the following Balances, and the undermentioned particulars, you are required to make out a Trading and Profit and Loss Account for the year ended 30th April, and a Balance Sheet as on that date.

Trade Creditors	£3,578	Discounts Received	£580
Bills Payable	1,870	Bills Receivable	536
Law Charges	42	Purchases	11,720
General Expenses	758	A. Perry, Capital A/c	9,280
Cash at Bank	1,898	,, Drawings A/c	800
B. Ruston, Capital A/c	7,520	Stock, 1st May	6,390
,, Drawings A/c	600	Trade Debtors	6,322
Premises	4,000	Carriage	358
Cash Creditor	4,000	Returns Inwards	2,860
Returns Outwards	1,620	Salaries	1,570
Bad Debts Reserve, 1st May	220	Sales	21,360
Cash in hand	40	Bad Debts	260
Discounts Allowed	860	Rent, Rates, and Taxes	1,120
Wages (manufacturing)	3,994	Plant and Machinery	5,900

The following adjustments are necessary—

Bad Debts estimated at £291; Discount Reserve on Debtors, 3½ per cent; on Creditors, 2½ per cent; Interest on Capital, 5 per cent per annum; one year's Interest due to Cash Creditor, £160; Depreciation of Plant and Machinery, 10 per cent. Stock on hand at 30th April was £9,384.

11. Messrs. Kingsley & Larke are in partnership, sharing profits and losses two-thirds and one-third respectively. From the following Balances and the undermentioned particulars, prepare Trading and Profit and Loss Account for the year ended 31st July, and a Balance Sheet as at that date.

Freehold Premises	£4,000	Cash at Bank	£3,940
Discounts Allowed	950	Stock, 1st Aug.	10,764
Trade Creditors	6,994	Plant and Machinery	14,690
General Charges	1,370	Bad Debts	920
Wages (manufacturing)	9,294	Patents	3,000
Bills Payable	2,686	Cash in hand	20
Rent, Rates, and Taxes	3,500	Trade Debtors	11,760
B. Kingsley, Capital A/c	21,360	R. Larke, Capital A/c	10,640
,, Drawings A/c	1,940	,, Drawings A/c	900
Bad Debts Reserve, 1st Aug.	1,160	Salaries	2,520
Discounts Received	520	Insurance	190
Sales	47,560	Purchases	21,162

The following adjustments are necessary—

Bad Debts Reserve, £600; Interest on Capital, 5 per cent per annum; Depreciation: Patents, 10 per cent; Plant and Machinery, 10 per cent; Business Premises, £200; Frank Higgins, the works manager, is entitled to 5 per cent of the net profits.

The Stock on hand at 31st July was valued at £9,550.

12. Alfred Ramsden & Philip Brookes trade under the style of Ramsden, Brookes, & Co. The following Balances were extracted from their books on the 30th June—

Trade Creditors	£8,192	Salaries	£720
Freehold Premises	5,000	Stock, 1st July	5,900
Discounts (*Dr.* balance)	230	P. Brookes, Capital A/c	6,860
A. Ramsden, Capital A/c	12,300	,, Drawings A/c	600
,, Drawings A/c	1,200	Trade Debtors	20,176
Rent, Rates, and Taxes	860	Bills Payable	3,800
Repairs	146	Bad Debts Reserve, 1st July	600
Bills Receivable	620	Sales	29,384
Purchases	17,182	General Expenses	852
Cash at Bank	1,120	Cash in hand	30
Wages of Workmen	2,940	Plant and Machinery	3,560

The following adjustments are necessary—

Bad Debts Reserve, 5 per cent Debtors; Interest on Capital at 5 per cent per annum; Depreciation of Plant, 10 per cent per annum.

Stock on hand at 30th June was valued at £2,498. Profits are divisible equally.

Make the necessary closing entires and prepare Trading and Profit and Loss Accounts, and Balance Sheet as at 30th June.

13. From the following Trial Balance of a company, prepare Trading, and Profit and Loss Account for the year ended 31st December, 19.., and a Balance Sheet.

TRIAL BALANCE

DEBITS	£	s.	d.	*CREDITS*	£	s.	d.
Plant and Machinery	1,972	10	–	Capital (nominal 10,000 shares of £1 each) Issued, 8,000, fully paid	8,000	–	–
Manufacturing Wages	3,496	12	–	Sundry Creditors	5,416	10	–
Salaries	1,596	10	4	Balance of P. & L. A/c	743	6	–
Fixtures and Fittings	947	6	8	Bank Loan	1,000	–	–
Carriage Inwards	198	4	7	Purchases Returns	114	5	11
Carriage Outwards	215	6	11	Sales	24,141	14	5
Freehold Works	2,500	–	–				
Manufacturing Expenses	945	14	3				
Rates, Taxes, and Insurance	417	10	10				
Goodwill	3,000	–	–				
General Expenses	814	5	–				
Factory Fuel and Power	127	10	–				
Sundry Debtors	7,814	10	–				
Lighting and Heating	98	14	7				
Stable Expenses	247	6	11				
Stock, 1st Jan., 19..	3,417	8	9				
Horses and Carts	516	10	–				
Purchases	9,716	10	4				
Sales Returns	316	10	–				
Discount	92	4	1				
Bad Debts	148	9	6				
Interest and Bank Charges	47	10	–				
Cash at Bank	754	1	5				
Cash in hand	14	10	2				
	39,415	16	4		39,415	16	4

Adjustments—

(1) Stock, 31st December, 19.., £2,962 9s. 7d.

(2) Depreciation: Plant, etc., 10 per cent; Fixtures and Fittings, 5 per cent; Horses and Carts, £100.

(3) Reserve for Bad Debts to be equal to 5 per cent of Sundry Debtors.

(4) Rates and Insurance unexpired on 31st December, £49.

(5) A Commission of 1 per cent on the Gross Profits to be provided for Works Manager.

(6) A Commission of 5 per cent of Net Profits (after charging the Works Managers' Commission) to be credited to the General Manager. (*R.S.A.*)

14. The following are the Ledger Balances of A, B, C, & Co., as on 31st December—

Sundry Debtors	£6,000	Sales	£25,000
General Trade Expenses	1,200	Sundry Creditors	1,000
Factory Rent	250	Interest Received	120
Manufacturing Wages	2,000	Purchases Returns	200
Purchases	10,000	Discounts Received	180
Fixtures and Fittings	500	Reserve for Bad Debts	200
Carriage and Freight on Raw Material	500	A. Capital A/c . *Cr.*	10,000
Sales Returns	300	B. Capital A/c . *Cr.*	10,000
Horses, Harness, and Vehicles	2,000	Plant and Machinery	6,000
Advance on Mortgage. *Dr.*	2,000	Freehold Offices	2,000
Travelling Expenses	600	Balance at Bank	2,300
Office Salaries	2,200	Cash Balance	10
A. Drawings	1,000	Stock, 1st Jan.	5,000
B. "	1,000	C. Capital A/c . . *Dr.*	1,000
C. "	500	Discounts Allowed	220
		Rates, Taxes, and Insurance	120

Prepare—

(1) Trading Account, showing gross profit for the year.

(2) Profit and Loss Account, showing net profit available for division among the partners.

(3) Balance Sheet as on 31st December, 19...

Stock on hand on 31st December, 19.., amounted to £7,500. According to the Partnership Deed 5 per cent Interest on Partner's Capital is to be credited or charged, as the case may be, and the profits are to be divided as to A two-fifths, B two-fifths, C one-fifth.

Write off 5 per cent from Plant and Machinery.

Write off 10 per cent from Horses, Harness, Vehicles, and Fixtures and Fittings. Increase the Reserve for Bad Debts by £400. (*Civil Service, Assistant Clerks.*)

15. Robert Poole and Frederick Winchley entered in partnership on 1st October, under the style of Poole & Co. The following Balances (except one) were obtained from their books at 30th September, after the first year's trading—

Sundry Debtors, £7,360; R. Poole, Drawings Account, £800; F. Winchley, Drawings Account, £800; Stock, 30th September, £4,900; Salaries, £940; Carriage, £450; Discounts Received, £720; Purchases, £26,720; Commission, £660; Plant and Machinery, £9,252 (after charging Depreciation, £1,026); Freehold Premises, £3,000; Trade Creditors (including Bills Payable, £1,500), £7,704; Cash at Bank, £1,180; Discounts Allowed, £1,064; Rent, Rates, and Taxes, £1,660; Wages of Workmen, £5,480; General Expenses, £872; Travelling Expenses, £520; Goods sold, £35,360.

Draw up a Trial Balance (bringing into account the Capital, which the partners contributed equally), and prepare Trading and Profit and Loss Account, and Balance Sheet as at 30th September, after allowing Interest on Capital at 5 per cent per annum.

16. From the following Ledger Balances prepare Trading Account, Profit and Loss Account, and Balance Sheet of Messrs. H. Oakley and W. Denham, Harness Manufacturers, as on 31st December, sharing profits and losses equally. Before dividing the profits, allow Interest on Partners' Capital at 5 per cent per annum; depreciate Machinery and Plant 7½ per cent, and Fixtures and Fittings 6 per cent; provide for Bad and Doubtful Debts 5 per cent, and for a half-year's interest on the Mortgage at 5 per cent per annum to 31st

December; carry $7\frac{1}{2}$ per cent of the net profit (if any) to the Reserve Fund; Stock 31st December, £14,725 2s. 6d.

	£	s.	d.		£	s.	d.
H. Oakley, Capital A/c (1st Jan.) . .	10,000	–	–	Stock A/c (1st Jan.) .	10,910	5	5
W. Denham, Capital A/c (1st Jan.) .	9,000	–	–	Rates and Taxes A/c	251	9	11
Freehold Premises .	13,100	–	–	Banker's Account *Cr.*	2,437	–	–
Bills Payable A/c .	2,402	8	2	Office Expenses A/c .	104	5	3
Fixtures and Fittings A/c	3,600	–	–	Carriage A/c . .	1,066	2	9
Wages A/c . . .	7,930	1	4	Insurance A/c . .	191	11	4
Mortgages on Premises A/c . . *Cr.*	4,500	–	–	Interests and Discounts A/c . *Cr.*	43	12	1
Sundry Creditors .	13,802	18	4	Sundry Debtors .	8,510	–	–
Reserve Fund (for contingencies) .	1,050	–	–	Interest on Mortgage A/c	112	10	–
Sales A/c . . .	45,230	2	10	General Trade Expenses A/c . .	1,040	17	2
Machinery and Plant A/c	6,000	–	–	Repairs A/c . .	337	13	1
Cash Account . .	472	14	7	H. Oakley's Drawings A/c (including interest) . . .	1,767	10	–
Purchases A/c . .	31,038	10	7	W. Denham's Drawings A/c (including interest) . .	1,482	10	–
Salaries A/c . .	550	–	–				

(*Union of Educational Institutes.*)

17. Wm. Smith and Joseph Thompson trade in partnership as Metal Merchants under the style of Smith, Thompson & Co., William Smith's capital being £15,000, and Joseph Thompson's £12,000.

The Ledger shows the following Balances—

	£	s.	d.		£	s.	d.
Office Furniture and Fittings . .	[illegible]73	8	2	Purchases of Copper .	40,170	12	–
Rent	200	–	–	„ Tin .	8,426	18	9
Sales of Copper. .	37,445	7	1	„ Iron .	86,983	7	2
„ Tin . .	9,476	3	8	„ Pig Iron	75,536	14	1
„ Iron . .	87,753	11	6	Stocks on hand at 1st Jan—			
„ Pig Iron .	76,942	8	–	Copper . .	12,008	–	3
Discounting Bills .	829	7	3	Tin . . .	875	11	4
Bills Receivable .	9,814	15	–	Iron . . .	3,026	14	–
Discounts Allowed *less* Discounts received	4,423	9	11	Office and Warehouse Expenses . .	574	19	9
Cash in hand . .	23	2	11	Carriage . . .	1,463	13	7
Sundry Debtors .	7,618	4	10	Wm. Smith, Drawings	618	4	2
Sundry Creditors .	6,028	7	10	Joseph Thompson, Drawings . .	429	8	6
Salaries of Office Staff	316	4	–	Midland Bank . *Cr.*	2,941	7	5
Warehouse Wages .	226	–	–	Bills Payable . .	6,784	2	6
Bank Interest and Commission . .	332	12	4				

The Stocks on hand at 31st December were—

	£	s.	d.
Copper	£22,111	14	2
Tin	617	18	10
Iron.	6,513	4	1

From the foregoing make out Profit and Loss Account and Balance Sheet, charging 5 per cent Interest on the Partners' Capital, and crediting Partners with £500 each, Salary. (*Union of Educational Institutes.*)

18. H. Shepherd and G. Elkington entered into co-partnership as Builders and Contractors at Northampton on 1st January. Elkington's capital was

£1,000, Shepherd's was £4,000. Profits or losses were to be shared equally. 5 per cent was to be credited to each Partner in respect of his capital, and 5 per cent was to be charged on their respective drawings. Elkington was to be credited with £25 each quarter as salary for management. The following is a copy of the Ledger Balances of their books on 31st December, but no interest has been charged either upon the capital or upon drawings, nor had Elkington been credited with his salary.

The Stock was taken and amounted to £3,750. The drawings of the partners had been as follows: Shepherd, 1st February, £50; 1st April, £100; 1st June, £50; 1st August, £50; 1st October, £100; 1st December, £50; Elkington, 1st February, £25; 1st March, £37 10s.; 1st May, £62 10s.; 1st June, £50; 1st August, £25; 1st September, £37 10s.; 1st November, £62 10s.; 1st December, £50.

	£	s.	d.		£	s.	d.
Sales	9,756	10	7	Interest and Discount *Dr.*	250	3	7
Purchases	3,857	6	6	Salaries	457	10	–
Cash	365	2	11	Wages	1,304	2	6
Bills Payable	421	3	4	Carriage and Freight	255	4	7
Creditors	1,062	7	1	Repairs and Depreciation	212	5	7
Rent	525	7	6	Plant and Tools	1,437	14	5
Bank *Cr.*	664	19	9	Shepherd's Drawings	400	–	–
Taxes and Insurance	224	12	6	Elkington's Drawings	350	–	–
General Charges	108	2	2	Debtors	4,657	8	6
Buildings	2,500	–	–				
Shepherd's Capital	4,000	–	–				
Elkington's Capital	1,000	–	–				

Prepare a Trading Account, Profit and Loss Account for the year, and Balance Sheet, giving effect to the respective partnership terms as to Interest on Capital and Drawings, Partners' Salary, and division of Profits and Losses. (*Union of Educational Institutes.*)

19. John Green, Henry Richards, and Reginald Everitt trade together under the title of Green, Richards & Co.; each partner is entitled to a salary of £500 per annum.

John Green's capital is £8,000; Henry Richard's, £7,000; and R. Everitt's, £5,000.

At the end of the year the balances were as follows—

	£	s.	d.		£	s.	d.
Debtors	5,162	11	1	Discount *Dr.*	394	11	3
Creditors	4,726	15	2	Interest on Loans *Dr.*	12	10	–
Bills Receivable	365	10	–	Insurance	63	4	–
Bills Payable	918	19	11	Consignments *Dr.*	198	10	–
Stock	7,017	13	8	Bad Debts	17	2	6
Purchases	62,169	7	3	Sundry Trade Charges	2,838	18	9
Wages	3,013	4	4	Reserve for Bad Debts	100	–	–
Salaries of Staff	618	13	8	Sales	73,483	10	10
Office Expenses	493	8	5	Loans at 5%, borrowed 30th June *Cr.*	500	–	–
Property—Works	6,500	–	–	Reserve for Discounts *Cr.*	182	11	6
Machinery	10,000	–	–				
Cash	16	14	11				
Bank	1,029	17	7				

The Stock at 31st December amounted to £8,316 19s. 10d. Write 7½ per cent Depreciation off Machinery and 2½ per cent off Works. Make out Profit and Loss Account and Balance Sheet, crediting each partner with 5 per cent interest on his capital. (*Lancashire and Cheshire Union.*)

20. Prepare Final Accounts of John Combine, steel merchant, on 31st December. Stock, at 31st December, valued at £3,500. Write off £400 Bad Debts, and maintain a Reserve of 5 per cent on the remaining debtors' balances to allow for doubtful debts. Depreciate Plant 10 per cent. Allow interest on Capital at 5 per cent per annum. Combine introduced an extra £500 capital on 1st December.

Stock	£9,600	Returns In	£100
Wages	3,200	Sundry Debtors	3,500
Railway Charges, etc.	500	Office Expenses	500
Purchases	12,000	Income Tax	50
Interest on Overdraft	20	Drawings as against Profits	500
Bills Receivable	600	J. Combine, Capital	5,000
Rents, Rates, etc.	200	Bills Payable	500
Plant and Machinery	2,000	The Consolidated Bank *Cr.*	400
Travelling Expenses	500	Sales	25,000
Repairs to Plant	160	Reserve for Bad Debts	500
Cash	200	Discount on Purchases	400
Discount on Sales	500	Sundry Creditors	2,330

(*National Union of Teachers.*)

21. The books of Black & White, who are equal partners, are balanced yearly as on 31st December. Before profits are ascertained and divided, 5 per cent interest is allowed upon Partners' Capital. Depreciation at the rate of 5 per cent is written off the Plant Account, and a provision of 5 per cent is made for Bad and Doubtful Debts. One year's interest, at the rate of 4½ per cent, is due upon the Loan on Mortgage, and has not yet been passed through the books. The Stock on hand, as on 31st December, was valued at £3,225.

The following are the final Balances as on 31st December—

Purchases	£16,450	Trade Charges	£400
Manufacturing Wages	2,150	Premium on Lease A/c (6 years unexpired as on 1st Jan.)	2,400
Sales	24,800	Sundry Creditors	15,345
Black's Capital A/c	5,000	Loan on Mortgage	5,000
„ Drawings A/c (including Interest)	550	Freehold Land and Buildings	8,000
White's Capital A/c	2,000	Plant A/c	4,000
„ Drawings A/c (including Interest)	350	Reserve for Bad and Doubtful Debts (as on 1st Jan.)	600
Stock (as on 1st Jan.)	3,000	Sundry Debtors	13,100
Salaries	820	Cash at Bank	1,200
Rates and Taxes	325		

Prepare a Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

22. On 31st December, Messrs. Arthur Wilson and John Bookman are in partnership as Cigarette Merchants, profits divided equally. Before the net profit can be ascertained the following adjustments must be made, which adjustments may be made through the Profit and Loss Account and the Balance Sheet; separate Ledger Accounts need not be introduced.

1. Interest on Partner's Capital at 5 per cent from 1st July.
2. Charge to the period the correct proportion of the prepaid Insurance Premium.
3. Write off half of J. Macmillan's Dishonoured Bill.
4. Create a Reserve of 5 per cent on Sundry Debtors.

A. Wilson (Capital A/c)	£7,250	Commission . . *Cr.*	£564
John Bookman (Capital A/c)	4,685	Rent, Rates, and Taxes	562
Arthur Wilson (Drawings A/c, including Interest)	640	Stock	8,968
John Bookman (Drawings A/c, including Interest)	410	Salaries and Wages	1,100
Bills Receivable	950	Travelling Expenses	130
Plant and Machinery	2,880	Expenses of Licences	58
Sundry Debtors (including John Macmillan, for dishonoured Bill, £100)	6,200	Insurance, etc. (including Premium of £30 per annum paid to end of March next)	40
Loan A/c . . . *Cr.*	2,000	Cash	53
Wages, Manufacturing	4,097	Bank	1,897
Returns In	278	Repairs and Renewals	337
Purchases (including Government Duty)	25,659	Interest and Discount *Dr.*	587
Sales	35,643	Bad Debts	362
		Sundry Creditors	5,963
		Fixtures and Fittings	897

The Stock on hand at the end of the year is £12,896.

Make out in proper form Trading, Profit and Loss Account, and Balance Sheet. (*National Union of Teachers.*)

23. Messrs. Slander and Backbite own a small newspaper. Profits and losses are equally divided. Before the division of Profits, the following adjustments are necessary: 10 per cent Depreciation is to be written off Plant Account; 20 per cent off Type Account, and 10 per cent off Horses and Carts Account; 5 per cent provision is to be made for Bad and Doubtful Debts; Six Months' Interest at 5 per cent is due upon the Bank overdraft, and has not yet been passed through the books.

Stock as on 31st December, was valued at £381.

No interest is allowed upon Partner's Capital Accounts, Backbite's smaller capital being compensated for by the fact that he gives more time to the business than his partner.

The following were the Ledger Balances of the firm as on 31st December—

Expenses of Branch Office	£129	Trade and Incidental Expenses	£82
Insurance A/c	34	Cost of Literary Contributions	898
Rates, Taxes, and Gas	50	Commissions Paid	152
Postages A/c	182	Stable Expenses	121
Carriage A/c	264	Ink Purchases A/c	88
Bad Debt Reserve (1st Jan.)	430	Machine and Engine Room Expenses	242
Sales and Subscriptions Newspaper Department)	4,852	Audit Fee	52
Sales (Jobbing Dept.)	848	Law Charges	124
Advertisements A/c (Receipts)	5,540	Bad Debts A/c	142
Compositors' Wages A/c	2,035	Freehold Printing Works	4,950
Reporters' Salaries	798	Additions to Freehold Premises during the year	150
Paper Purchases A/c	2,220	Plant and Machinery A/c	4,400
Office Salaries	748	Type A/c	2,900
S. Slander's Capital A/c	9,864	Stock (1st Jan.)	342
,, Drawings A/c	1,040	Horses and Carts A/c	194
B. Backbite's Capital A/c	7,540	Sundry Debtors	8,440
,, Drawings A/c	952	Cash in hand	457
Trade Creditors	862	Bank Overdraft	1,500
Advertisements Paid in Advance A/c	750		

Prepare a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

24. James Thompson took over the business of an Iron Ore proprietor, the lease of the mines having fifteen years to run, on 1st January, and carried on the business for six months.

Make up his Profit and Loss Account and Balance Sheet from the following figures without taking account of interest upon Capital, but providing for the wasting of the Lease, and writing off depreciation, at the rate of 5 per cent per annum from Machinery and Plant, providing £445 for bad debts, and allowing a discount of 2½ per cent from the Debtors and Creditors.

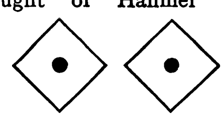
James Thomson, Capital .	£20,000	Rent, Rates, and Taxes .	£2,330
„ „ Withdrawals	800	Bank Charges . . .	200
Machinery and Plant . .	3,522	Discounts allowed . .	850
Ore Sales	36,700	Royalty	5,000
Cash at Bankers . .	5,709	Lease	16,500
„ on hand . . .	9	Coals	1,260
Allowances and Returns .	500	Sundry Debtors . . .	6,300
Salaries	939	Candles and Oil . . .	390
Wages	12,684	Repairs	360
Discounts received . .	75	Powder	372
Damages for breach of contract	100	Office Furniture . .	100
Unpaid Wages . . .	286	Carriage and Freight . .	913
Sundry Creditors . .	8,000	Stock, 1st January . .	4,850
Unexpired Insurances .	40	Ropes used . . .	53
		Timber used . . .	1,280

The Stock at 30th June amounted to £5,000. (*Chartered Accountants.*)

REVISION EXERCISE II

1. State briefly the general principles of Book-keeping, the systems in ordinary use, and whether (if any) preference is to be given to any particular system. (*London Chamber of Commerce.*)

2. The following is a record of transactions in a city house—make the necessary entries, post same to Ledger Accounts, and draw out Trial Balance.

19..		£	s.	d.
Jan. 2.	Sold Wm. Smith & Co. Goods as per Invoice a/7567. Cash 14 days less 2½ per cent	173	10	–
„ 3.	Bought of Hanmer & Co., 2 Bales  —net. Gave two months' acceptance due 5th March . .	98	15	–
„ 4.	Received Palmer & Co.'s Cheque for account, £35 less 5 per cent discount . . .	33	5	–

		£	s.	d.	£	s.	d.
Jan. 4.	Received cash on account from Webster & Co., leaving balance £18 15s.				30	–	–
„ 5.	Paid London & County Bank				63	5	–
„ 6.	Sold William Owen Goods as per Invoice a/7568. Cash at 7 days less 1¼ per cent				75	–	–
„ 9.	Gave Peter Robinson 3 months' acceptance due 12th April, to close his account, less discount £2 3s. 4d.				82	3	4
„ 12.	Drew Cheques as follows—						
	No. 1760 Wages Account	25	15	–			
	1. Rent, Quarter Year	30	–	–			
	2. Rates and Taxes.	7	15	–			
	3. Gas Account	3	6	6			
					66	16	6
„ 15.	Received W. Smith & Co.'s Cheque. Discount £4 6s. 9d.				169	3	3
„ 16.	Received Webster & Co.'s Cheque				18	15	–
„ 17.	Received Wm. Owen's Cheque. Discount 18s. 9d.				74	1	3
„ 18.	Paid London & County Bank				261	19	6
„ 19.	Advised London & County Bank to honour our Acceptance of Wm. Simpson's Draft due this day for				143	10	–

(*London Chamber of Commerce.*)

3. What is a Profit and Loss Account; of what items is it composed, and, assuming you to have prepared one showing a Profit, would such Profit appear as an Asset or a Liability in the Balance Sheet? State your reasons why in either case. (*London Chamber of Commerce.*)

4. The Stanley Main Coal Company entered into a contract with Messrs. Ricksmith, Pigg & Co., to supply 1,000 tons coal monthly, for a period of 12 months, at 7s. 6d. per ton, with 9d. per ton for waggon hire, and 2s. 6d. per ton carriage, with an allowance by the vendors of 6d. per ton for screening; payment to be made each month by the firm's acceptance at 2 months on receipt of invoice. Make the necessary entries in the subsidiary books of the Coal Company for the first three months' delivery, and post the same to the respective Ledger Accounts. (*London Chamber of Commerce.*)

5. G. Sykes and R. Simpson trade as the Simplex Manufacturing Co. The following was the Trial Balance of their books for the twelve months ending 31st December. Prepare Trading Account, Profit and Loss Account, and Balance Sheet.

Make the following Provisions and Reserves. Profits or Losses to be shared equally. Interest at 5 per cent on Partners' Capital Accounts, ignoring Drawings. Transfer £75 from Purchases Account, and £115 from Wages Account to Additions to Plant; Depreciate Plant Account 5 per cent off balance and 25 per cent off additions; Depreciate Furniture and Fittings Account 5 per cent; add to Leasehold Premises Redemption Account 2½ per cent interest on balance and Annual Instalment of £37 10s.; Reserve for Bad and Doubtful Debts, 5 per cent on Debtors.

Before dividing profits, J. Smith, the Works Manager, is to receive a Bonus on the net profits of 2 per cent up to £2,500, and 1½ per cent on any profits over that amount.

TRIAL BALANCE—31st December

	Dr. £	s.	d.	Cr. £	s.	d.
G. Sykes, Capital A/c, 1st Jan.				8,500	–	–
„ Drawings A/c	1,000	–	–			
R. Simpson, Capital A/c, 1st Jan.				6,444	1	–
„ Drawings A/c	750	–	–			
Leasehold premises	3,270	10	6			
„ „ Redemption A/c				675	–	–
Plant, Machinery, and Tools, 1st Jan.	6,012	11	8			
Plant, Machinery, and Tools, Additions during the year	252	17	4			
Furniture, Fittings, and Fixtures	873	14	6			
Cash Account	35	17	2			
Lloyds Bank, Ltd., Current A/c	1,014	16	7			
Bills Receivable Account	1,173	16	2			
„ Payable Account				4,573	19	10
Sales				38,350	2	6
Purchases	22,753	14	8			
Wages A/c, Producers	7,642	12	9			
„ „ Non-producers	1,013	10	6			
Discounts received and allowed	1,975	14	6	1,162	8	10
Carriage and Freight	457	16	9			
Sundry Trade Expenses	282	12	8			
Ground Rent, Rates, and Taxes	472	16	9			
Coal, Gas, and Water, Works A/c	522	19	7			
„ „ „ Office A/c	89	17	1			
Bank Charges	54	13	9			
Creditors				5,003	16	2
Debtors	9,872	12	6			
Bad Debt Account (Reserve)				152	12	9
Repairs to Plant	63	18	10			
Stock Account, 1st Jan.	5,274	16	10			
	£64,862	1	1	£64,862	1	1

Stock, 31st December, £6,378 12s. 6d.

(Union of Educational Institutes.)

CHAPTER III

BILLS OF EXCHANGE, PROMISSORY NOTES, CHEQUES

Definition. By the Bills of Exchange Act, 1882, a bill of exchange is defined as—

An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer.

An instrument which does not comply with these conditions, or which orders any act to be done in addition to the payment of money, is *not* a bill of exchange.

An order to pay out of a particular fund is not unconditional within the meaning of this section; but an unqualified order to pay, coupled with (*a*) an indication of a particular fund out of which the drawee is to reimburse himself or a particular account to be debited with the amount, or (*b*) a statement of the transaction which gives rise to the bill, is unconditional.

Advantages of Bills. The chief advantages of a bill are—

1. It is legal evidence of debt, the creditor being able to sue on the bill itself. It also fixes the date of payment.

2. It is a negotiable instrument, and can, therefore, be transferred by the holder in settlement of his own debts, thus obviating the trouble and expense of transmitting coin.

3. It can be cashed before the due date, in fact whenever desired, by being discounted with a banker or bill-broker. This constitutes a very great advantage to business concerns, which are frequently run on credit, and may need ready money.

Kinds of Bills. There are two kinds of bills, Inland and Foreign. An Inland Bill is a bill which is or on the face of it purports to be (*a*) both drawn and payable within the British Islands, or (*b*) drawn within the British Islands upon some person resident therein. For the purposes of the Act, the term British Islands includes the Isle of Man and the Channel Islands. Any other bill is a **Foreign Bill.**

Trade Bill is a bill of exchange drawn in the ordinary course of business and for value received, in contradistinction to an Accommodation Bill, i.e. one for which no value has been given.

Form of Bill. No particular form of words is required by the Act,

and the following may be taken as a fair specimen of the usual business document—

£250 due 20 April, 19.. 8/- Stamp Three months Mr. M. Bressloff two hundred value received. To Mr. M. Goodman.	Accepted payable at the County Bank, Limited, Kingsway Branch. M. Goodman.	London, 17 Jan., 19.. after date pay to or order the sum of and fifty pounds J. Rowell.

Parties to a Bill. There are three parties to a bill—

(*a*) **Drawer,** the person who is assumed to have written out the bill, i.e. the creditor to whom the money is owing.

(*b*) **Drawee,** the person on whom a bill is drawn, and who, after acceptance, is called the **acceptor.**

(*c*) **Payee,** the person to whom the money is payable. Sometimes the drawer and payee are one and the same person, as when the drawer asks for the money to be paid to himself. In the example given, J. Rowell is the drawer, M. Goodman the drawee, M. Bressloff the payee.

Immediate Parties are those in direct relationship with each other e.g. drawer and drawee (or acceptor), drawer and payee, endorser and his next endorsee.

Remote Parties are all those not in direct connexion with each other, e.g. last endorser and first endorser, an intermediate endorsee and the acceptor, an intermediate endorser and the drawer or payee.

Draft and Acceptance. Before acceptance the bill is called a draft, which may, therefore, be defined as the unaccepted form of a bill of exchange. But after the drawee has written his signature across the face of it, it is termed an acceptance. It is called a bill at either stage.

Stamp Duty. The *ad valorem* stamp duty on inland bills of exchange is as follows—

Where the amount does not exceed	£10	2d.
Exceeding £10 but not exceeding	£25	3d.
" £25 " "	£50	6d.
" £50 " "	£75	9d.
" £75 " "	£100	1s.

When the amount exceeds £100, 1s. for the first £100, and an additional 1s. for every £100 or fraction of a £100. When bills are

drawn payable on demand (which include those payable on presentation or at sight) or within three days after date or sight, no matter what the amount, the stamp duty is only 2d.; and a 2d. adhesive stamp may be used, provided the stamp is affixed at the time of issuing the bill and is properly cancelled by the drawer. In all other cases bills must be written on paper bearing an impressed stamp of the proper value. Any person dealing with a bill of exchange improperly stamped renders himself liable to a penalty of £10.

If a bill is payable *with interest*, the stamp duty covers the interest unless the amount of it is mentioned in the bill.

Legal Liability of Parties to a Bill. The liability of the parties to a bill arise in the following order—

1. The acceptor.
2. The drawer.
3. The endorser (or endorsers).

The "acceptor" is primarily liable on a bill to the drawer so long as the drawer retains it. On endorsement to a payee, the "drawer" then becomes liable on the bill as well as the acceptor. The subsequent endorsement over by a holder in due course, who becomes an "endorser," thereby creates his liability on the bill. The "drawer" and "endorser" are liable to compensate the holder or any subsequent endorser provided the requisite proceedings on dishonour have been duly taken.

Long Bills. These are bills that have a long currency or tenor, i.e. time to run before maturity, such as those drawn at two months after date and upwards.

Short Bills. These are bills whose currency or tenor is only for a very short period, such as those payable on demand or within ten days.

Option of Treating Bills of Exchange as a Promissory Note. Where in a bill drawer and drawee are the same person, or where the drawee is a fictitious person or a person not having capacity to contract, the holder may treat the instrument, at his option, either as a bill of exchange or as a promissory note.

Sum Payable. The sum payable by a bill is a sum certain within the meaning of the Act, although it is required to be paid—

(*a*) With interest.

(*b*) By stated instalments.

(*c*) By stated instalments, with a provision that upon default in payment of any instalment the whole shall become due.

Where the sum payable is expressed in words and also in figures, and there is a discrepancy between the two, the sum denoted by the words is the amount payable.

Where a bill is expressed to be payable with interest, unless the

bill provides otherwise, such interest runs from the date of the bill, or, if the bill is undated, from the issue of it.

Bill Payable on Demand. A bill is payable on demand—

(*a*) Which is expressed to be payable on demand, or at sight, or on presentation; or

(*b*) In which no time for payment is expressed.

Where a bill is accepted or endorsed when it is overdue, it is deemed a bill payable on demand as regards any such acceptor or endorser.

Bill Payable at a Future Time. A bill is payable at a determinable future time within the meaning of the Act which is expressed to be payable—

1. At a fixed period after date or sight.

2. On or at a fixed period after the occurrence of a specified event which is certain to happen, though the time of happening may be uncertain.

An instrument expressed to be payable on a "contingency" is not valid as a bill.

Date of Bill. A bill is not invalid by reason of its not being dated, being ante-dated, post-dated, or dated on a Sunday.

Where a bill expressed to be payable at a fixed period after date is issued undated; or where the acceptance of a bill payable at a fixed period after sight is undated, any holder may insert therein the true date of issue or acceptance, and the bill is then payable accordingly. And should the holder in good faith and by mistake insert a wrong date, the bill is not avoided thereby, but is still payable as if the date so inserted had been the true date. The holder who fills in a date after acceptance should notify the acceptor, so that the latter may know the exact date of maturity.

d/d. Means days after date.

d/s. Means days after sight.

m/d. Means months after date.

Calculation of Time of Payment and Days of Grace. All bills except those payable on demand (which include those at sight or on presentation and those in which no time of payment is expressed) are subject to days of grace; that is, three extra days must be allowed for payment beyond the date mentioned in the bill. These three days used to be customary, but the law has now made them compulsory; and the bill is due and payable on the last day of grace. No right of action accrues until *after* the last day of grace. When the last day of grace falls on a Sunday, Christmas Day, Good Friday, or a day appointed by Royal Proclamation as a public fast or thanksgiving day, the bill is due and payable on the *preceding* business day. When the last day of grace is a bank holiday under the Bank Holidays Act, 1871, and other Acts, or when the last day of grace is a Sunday and the second day of grace is a bank holiday,

the bill is due and payable on the *succeeding* business day. If days of grace are not to be allowed, this fact must be specially noted on the bill by inserting the phrase "without days of grace," or by adding the word "fixed" after the time stated, as "on the 4th June fixed."

Where a bill is payable at a fixed period after date, after sight, or after the happening of a specified event, the time of payment is determined by excluding the day from which the time is to begin to run and by including the day of payment. In the case of leap year, one day more must be allowed to the month of February.

Where a bill is payable at a fixed period after sight, the time begins to run from the date of the acceptance if the bill is accepted, and from the date of noting or protest if the bill be noted or protested for non-acceptance, or for non-delivery.

The term "month" in a bill means calendar month. Thus, bills drawn on 28th Dec., 29th Dec., 30th Dec., 31st Dec. at two months would all mature on the same date, nominally on 28th Feb., but legally on 3rd March (allowing for days of grace).

Case of Need. The drawer of a bill, and any indorser, may insert in the bill the name of a person to whom the holder may resort in case of need, that is, in case the bill is dishonoured by non-acceptance or non-payment. Such person is called the **referee in case of need.** It is in the option of the holder to resort to the referee in case of need or not as he may think fit.

Acceptance. The acceptance of a bill is the signification by the drawee of his assent to the order of the drawer. This acceptance is effected by the drawee writing his signature across the face of the bill, though it is apparently quite legal if written on the back of it. The word "accepted" is generally prefixed, but it is not legally necessary.

Domicile. When the drawee on accepting a bill marks on it the *place* of payment, this is called the domicile of the bill. If no place is mentioned, the bill is payable at the acceptor's usual place of business.

Kinds of Acceptance. An acceptance may be either (*a*) general or (*b*) qualified.

A general acceptance assents without qualification to the order of the drawer. A **qualified acceptance** in express terms varies the effect of the bill as drawn. In particular, an acceptance is qualified which is—

(*a*) **conditional**, that is to say, which makes payment by the acceptor dependent on the fulfilment of a condition stated therein;

(*b*) **partial**, that is, an acceptance to pay part only of the amount for which the bill is drawn;

(*c*) **local**, that is, an acceptance to pay only at a particular specified place. An acceptance to pay at a particular place is a general

acceptance, unless it expressly states that the bill is to be paid there only and not elsewhere;

(*d*) qualified as to time, as when a bill for two months is accepted for four;

(*e*) the acceptance of one or more of the drawees, but not of all.

The holder of a bill may refuse to take a qualified acceptance, and if he does not obtain an unqualified acceptance, he may treat the bill as dishonoured by non-acceptance.

NOTE. An acceptance on behalf of a firm or a limited company or in any fiduciary capacity should contain the name of the firm or company and be accepted for them, otherwise it may legally be held to be merely the personal acceptance of the party or parties signing; and this would render the latter personally liable on the bill. Thus acceptance should be—

For and on behalf of A. B. Co., Ltd.

....

Director.

And not—

....

Director of A. B. Co., Ltd.

Presentment for Acceptance. The presentment must be made by or on behalf of the holder, to the drawee or to some person authorized to accept on his behalf, at a reasonable hour on a business day and before the bill is overdue.

Where a bill is addressed to two or more drawees, who are not partners, presentment must be made to them all, unless one has authority to accept for all, when presentment may be made to him only. Where the drawee is dead, presentment may be made to his personal representative. Where the drawee is bankrupt, presentment may be made to him or to his trustee. Where authorized by agreement or usage, a presentment through the Post Office is sufficient.

Presentment for acceptance is excused, and the bill may be treated as dishonoured by non-acceptance—

(*a*) Where the drawee is dead or bankrupt, or is a fictitious person, or a person not having capacity to contract by bill;

(*b*) Where after the exercise of reasonable diligence presentment cannot be effected.

The fact that the holder has reason to believe that the bill, on presentment, will be dishonoured does not excuse presentment.

Dishonour by Non-acceptance. When a bill is duly presented for acceptance and is not accepted within the customary time (usually twenty-four hours), it must be treated as dishonoured by non-acceptance, or else the holder will lose his right of recourse against the drawer and endorsers.

A bill is dishonoured by non-acceptance—

(*a*) When it is duly presented for acceptance, and such acceptance is refused or cannot be obtained; or

(*b*) When presentment for acceptance is excused and the bill is not accepted.

When a bill is dishonoured by non-acceptance, an immediate right of recourse against the drawer and endorsers accrues to the holder, and no presentment for payment is necessary.

Recourse. This term denotes the right of a *bona fide* holder of a bill of exchange to require payment of it from some person other than the acceptor, that is, from any of the endorsers, or from the drawer.

Delivery of Bill. A bill of exchange, although complete in form, is, like a deed, of no effect against the parties to it until it has been properly delivered. If, therefore, a bill of exchange gets into circulation through being stolen from the drawer, acceptor, or endorsers, they will not be liable upon it except to a holder in due course.

Negotiable Instruments. Partly by custom (modern as well as ancient) and partly by statute law certain documents, including bills of exchange, have acquired negotiability. The characteristics of negotiable instruments are—

1. The property in them, and not merely the possession, passes by delivery.
2. The holder in due course is not prejudiced by any defects of title on the part of the transferor or any previous holder, even though such prior party may have stolen the bill.
3. The holder can sue upon them in his own name.

Generally speaking, if the holder's title can be made good through theft then the document is a negotiable one; if not, then it is not negotiable. The following are examples of negotiable instruments: coins of the realm, bills of exchange, bank notes, cheques, promissory notes, dividend warrants, East India bonds, exchequer bills, share warrants, bearer debentures and scrip, and bonds of foreign and Colonial Governments.

Negotiation of Bill. A bill being a negotiable instrument may be transferred from one person to another, who then acquires all the rights in it. A bill, negotiable in its origin, continues to be negotiable, i.e. may be re-issued, until it has been (*a*) restrictively endorsed or (*b*) discharged by payment or otherwise. Any holder may endorse over or transfer a bill unless the bill contains in the body thereof words prohibiting its transfer, or bears a restrictive endorsement. If a bill is payable to bearer, it is transferable simply by delivery; if payable to order, it is transferable by endorsement and delivery, that is, it requires the holder's signature on the back of it before being passed on. In any case, it is always

advisable to obtain the endorsement of a transferor in order to make him liable as a party to the bill, which he would not be otherwise.

Endorsement. The requisites of a valid endorsement are that it must be written on the bill itself and be signed by the endorser. The simple signature of the endorser *without additional words* is sufficient. The endorsement is usually on the back of the bill, though quite legal if on the front of it. The number of endorsements may be so numerous that the space on the back of the bill is insufficient to contain all the signatures. In this case a slip of paper, called an **allonge,** may be pasted on to the bill to receive any further endorsements. The first person to sign afterwards should write his signature partly on the bill and partly on the allonge, in order to prevent the two being separated; otherwise, the first signature on the allonge might be fraudently attached to a bill of a larger amount. An endorsement written on an allonge, or on a "copy" of a bill, is deemed to be written on the bill itself.

Where, in a bill payable to order, the payee or endorsee is wrongly designated, or his name is misspelt, he should endorse the bill as therein described, adding, *if he thinks fit,* his proper signature.

Kinds of Endorsements. An endorsement may be in blank or special. It may also contain terms making it restrictive. An **endorsement in blank** specifies no endorsee, and a bill so endorsed becomes payable to bearer. A **special endorsement** specifies the person to whom, or to whose order, the bill is to be payable, as "pay C D or order." A **restrictive endorsement** prohibits the further negotiation of the bill, as "pay C D only," or "pay C D for the account of E," or "pay C D or order" for collection. Where any person is under obligation to endorse a bill in a representative capacity, he may endorse the bill in such terms as to negative personal liability. The endorsement "**sans recours**" (without recourse) is thus often used by persons who have been acting as agents and not principals. A **facultative endorsement** is one in which an endorser has, as regards himself, waived some or all of the holder's duties, such as presentment for payment, notice of dishonour, etc. Example—

Pay C D or order,
Notice of Dishonour waived.
A B.

An endorsement must not be partial or conditional; it must be for the whole bill; and if the endorsement *is* conditional, the condition may be ignored by the payer.

Circuity of Action or Negotiation Back. Where a bill is negotiated back to the drawer, or to a prior endorser, or to the acceptor, such party may re-issue and further negotiate the bill, but cannot

enforce payment of the bill against any intervening party to whom he was previously liable. Thus, if Brown draws a bill and endorses it to Jones, Jones endorses to Roberts, Roberts to Green, and finally Green endorses back to Brown, Brown can re-issue and negotiate the bill but cannot enforce payment against Jones, Roberts, or Green. In like manner, if any other person becomes, for the *second* time, an endorser of the same bill, all intervening endorsers between his first and second endorsements are discharged from liability.

Where a person signs a bill otherwise than as drawer or acceptor, he thereby incurs the liabilities of an endorser to a holder in due course. This is known as "backing" a bill.

Consideration. The words "for value received" are usually written in a bill, but are not legally necessary, as a bill is not invalid by reason that it does not specify the value given, or that any value has been given therefor. Moreover, every party whose signature appears on a bill is prima facie deemed to have become a party thereto for value. This assumption, however, may be rebutted by evidence to the contrary. Valuable consideration for a bill may be constituted by—

(*a*) Any consideration sufficient to support a simple contract;

(*b*) An antecedent debt or liability, whether the bill is payable on demand or at a future time.

If a bill which has been previously accepted for value received is ultimately handed to a person as a gift, the holder cannot recover the amount from his immediate transferor as no consideration has passed; he can, however, recover it from any of the other parties to the bill. If a bill be given for a wagering or gaming debt, the holder cannot sue the loser upon it as the consideration is illegal. But if the bill is transferred for value to a third person who is unaware of the gaming transaction, such third person can enforce payment. This is so even in the case where a cheque (which is a bill of exchange) is drawn in a foreign country on a banker in this country, for a consideration which is legal in the country where it is drawn, but illegal in this country. The law of England always prevails in the case of bills of exchange, which are drawn in such a manner as to make them English bills.

Presentment for Payment. Except in a few special instances, a bill must be duly presented for payment, otherwise the drawer and endorsers will be discharged from their liability. A bill payable on demand must be presented within a "reasonable" time. A bill not payable on demand must be presented on the due date at the place of payment or address of drawee or acceptor mentioned in the bill; or if this is not specified, at the drawee's or acceptor's place of business if known; and if not, at his ordinary residence if known; and if not, at his last known place of business or residence,

or wherever he can be found. Where authorized by agreement or usage, a presentment through the Post Office is sufficient. Presentation for payment is not necessary in order to make an *acceptor* liable.

Delay in presentment for payment is excused when the delay is caused by circumstances beyond the control of the holder of the bill. Presentment is excused where the drawee is a fictitious person, by express or implied waiver, and where, after the exercise of reasonable diligence, presentment cannot be effected. The fact that the holder has reason to believe that the bill will, on presentment, be dishonoured, does not dispense with the necessity for presentment.

Dishonour by Non-Payment. A bill is dishonoured by non-payment (*a*) when it is duly presented for payment and payment is refused or cannot be obtained, or (*b*) when presentment is excused by the Act and the bill is overdue and unpaid. When a bill is dishonoured by non-payment, an immediate right of recourse against the drawer and endorsers accrues to the holder. When a bill is dishonoured by non-acceptance or non-payment, notice of dishonour must be given to the drawer and each endorser, or they will be discharged from their obligations. The notice may be given in writing or by personal communication. The return of a dishonoured bill to the drawer or an endorser is, in point of form, deemed a sufficient notice of dishonour. Notice must be given immediately after dishonour or within a reasonable time. Each party who receives notice of dishonour is allowed reasonable time to give notice to antecedent parties to the bill. Where a notice of dishonour is duly addressed and posted, the sender is deemed to have given due notice of dishonour, notwithstanding any miscarriage by the Post Office.

Noting and Protest of Bill. Where an inland bill has been dishonoured, it may, if the holder think fit, be noted for non-acceptance or non-payment as the case may be; but noting is not legally necessary to preserve the holder's rights against the drawer and endorsers. It is often done, however, in order to prevent any subsequent dispute as to the dishonour. A bill which has been protested for non-acceptance may be subsequently protested for non-payment. Provided a bill is duly noted on the day of its dishonour, or on the next succeeding business day, the protest may be extended subsequently as of the same date as the noting. A bill must be protested at the place where it is dishonoured, unless it has been presented through the Post Office, when it may be protested at the place to which it is returned by post. Where the acceptor of a bill becomes bankrupt or insolvent or suspends payment before it matures, the holder may cause the bill to be protested for better security against the drawer and endorsers.

Notary Public. This is a public officer whose duty is to certify deeds and other documents. The word "notary" is derived from the Latin *notarius* = a writer. The duties of a notary also include the presentation of dishonoured bills of exchange, and noting their non-acceptance or non-payment and afterwards protesting them if necessary.

Noting Charges. These are the notary's fees for re-presenting the bill, recording and certifying its dishonour, and, if required, drawing up the protest. When dishonoured bills are noted, the noting charges must be paid by the holder of the bill, who is entitled to recover them from the acceptor or from the person from whom he received the bill. The notary makes a copy of the bill in his register, and then writes on the bill itself the date, his charges, the letter or folio of his register, and lastly his initials. He, or his clerk, then re-presents the bill for acceptance, or payment, as the case may be. If it is dishonoured again, he gums on to the bill a small ticket or label containing his charges and the reason given for dishonour. The following is an example—

NOTING TICKET

PETER BROWN & Co.,
NOTARIES,
6 ABBEY LANE, E.C.
NOTING CHARGES, 7*s.* 6*d.*
Refer to Acceptor

Other reasons given might be "No Orders," "No Advice," "No Effects," "No Instructions," or "No Funds."

When Noting or Protest is Necessary. Noting or protest is absolutely necessary in the following cases—

1. Before a bill can be presented for payment to a referee in case of need.
2. Prior to an acceptance or payment for honour.
3. On dishonour of a bill by an acceptor for honour.
4. In the case of non-acceptance or non-payment of foreign bills.

Protest. This is the formal declaration in writing made by the notary public against the non-acceptor or non-payer of a bill of exchange. A Protest must contain a copy of the bill, and must be signed by the notary making it, and must specify—

(*a*) The person at whose request the bill is protested;

(*b*) The place and date of protest, the cause or reason for protesting the bill, the demand made, and the answer given, if any, or the fact that the drawee or acceptor could not be found.

It is not necessary to protest a bill in order to make the *acceptor* liable.

Where a dishonoured bill or note is authorized or required to be protested, and the services of a notary cannot be obtained at the place where the bill is dishonoured, any householder or substantial resident may, in the presence of two witnesses, give a certificate signed by them, attesting the dishonour of the bill, and the certificate operates as if it were a formal protest of the bill.

Damages on Dishonour. Where a bill is dishonoured, the measure of damages, deemed to be liquidated damages, is as follows—

1. The holder may recover from any party liable on the bill, and the drawer who has been compelled to pay the bill may recover from the acceptor, and an endorser who has been compelled to pay the bill may recover from the acceptor or from the drawer, or from a prior endorser—

(*a*) The amount of the bill;

(*b*) Interest thereon from the time of presentment for payment if the bill is payable on demand, and from the maturity of the bill in any other case;

(*c*) The expenses of noting, or, when protest is necessary, and the protest has been extended, the expenses of protest.

Holder in Due Course. A holder in due course is a holder who has taken a bill, complete and regular on the face of it, under the following conditions, namely—

(*a*) That he became the holder of it before it was overdue, and without notice that it had been previously dishonoured, if such was the fact.

(*b*) That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

Every holder of a bill is prima facie deemed to be a holder in due course.

Duty of Holder. Where the holder of a bill presents it for payment, he must exhibit the bill to the person from whom he demands payment, and when a bill is paid in legal tender the holder must forthwith deliver it up to the party paying it.

Acceptance for Honour *supra* Protest. Where a bill of exchange has been protested for dishonour by non-acceptance, or protested for better security, and is not overdue, any person, not being a party already liable thereon, may, with the consent of the holder, intervene and accept the bill *supra* protest, for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn. A bill may be accepted for honour for part only of the sum for which it is drawn. An acceptance for honour *supra* protest, in order to be valid, must (*a*) be written on

the bill, and indicate that it is an acceptance for honour, (*b*) be signed by the acceptor for honour.

Example—

> Accepted *supra* protest, or Accepted for the honour and account of.........................(drawer or endorser) with £........*s*.........*d*. noting charges and expenses.
>
> M. COLLADO.

Where an acceptance for honour does not expressly state for whose honour it is made, it is deemed to be an acceptance for the honour of the drawer. Where a bill payable after sight is accepted for honour, its maturity is calculated from the date of the noting for non-acceptance, and not from the date of the acceptance for honour.

Where a dishonoured bill has been accepted for honour *supra* protest, or contains a referee in case of need, it must be protested for non-payment by the drawee (if he refuses payment on presentation of the bill to him) before it is presented for payment to the acceptor for honour, or referee in case of need. When a bill of exchange is dishonoured by the acceptor for honour, it must be protested for non-payment by him.

Payment for Honour *supra* Protest. Where a bill has been protested for non-payment, any person may intervene and pay it *supra* protest for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn. Payment for honour *supra* protest, in order to operate as such and not as a mere voluntary payment, must be attested by a notarial act of honour which may be appended to the protest or form an extension of it.

Alteration of Bill. Where a bill or acceptance is materially altered without the assent of all parties liable on the bill, the bill is avoided except as against a party who has himself made, authorized, or assented to the alteration, and *subsequent* endorsers. In particular the following alterations are material, namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and where a bill has been accepted generally, the addition of a place of payment without the acceptor's assent. Alterations on a bill should, therefore, be initialled by all parties to the bill.

Lost Bill. Where a bill has been lost before it is overdue, the person who was the holder of it may apply to the drawer for another bill of the same tenor, giving security to the drawer if required to indemnify him against all persons whatever in case the bill alleged to have been lost is found again. If the drawer, on request, refuses to give such duplicate bill, he may be compelled to do so.

Forgery. No title to a bill can be made through forgery. A

transferee acquires no rights through a bill which bears a forged signature of either drawer, acceptor, or endorser, even though he had no knowledge of the forgery. He can, however, demand repayment of the amount he has paid for the bill from his transferor.

Discharge of Bill. A bill is discharged, i.e. all rights of action on it extinguished, by payment in due course by or on behalf of the drawee or acceptor. "Payment in due course" means payment made in legal tender *at* or *after* the maturity of the bill to the holder thereof in good faith and without notice that his title to the bill is defective. If a cheque is tendered in payment of a bill, the bill will be retained until the cheque is met as cheques are not legal tender. Payment by the acceptor *before* maturity does not discharge the bill, and the acceptor may re-issue it. Payment by the drawer or an endorser does not discharge a bill. Where a bill payable to, or to the order of, *a third party* is paid by the drawer, the drawer may enforce payment thereof against the acceptor, but may not re-issue the bill. Where a bill is paid by an endorser, or where a bill payable to *drawer's order* is paid by the drawer, the party paying it is remitted to his former rights as regards the acceptor or antecedent parties, and he may, if he thinks fit, strike out his own and subsequent endorsements, and re-issue the bill. When the acceptor of a bill is or becomes the holder of it at or after its maturity, in his own right, the bill is discharged. When the holder of a bill at or after its maturity, by express waiver in writing, or by delivering up the bill to the acceptor, absolutely and unconditionally renounces his rights against the acceptor the bill is discharged. Where a bill is intentionally cancelled by the holder or his agent, and the cancellation is apparent thereon, the bill is discharged.

Moratorium. This term, which is a Latin word derived from *morari* = to delay, denotes a legal authorization to delay for a stated time the payment of certain specified debts or obligations.

The promulgation of a moratorium is to allow debtors on bills of exchange, particularly firms who are unable to obtain payment from foreign debtors, time to collect the necessary funds to meet their own obligations, and thus save themselves from bankruptcy.

ACCOMMODATION BILLS

Definition. An Accommodation Bill is a bill put into circulation in order to raise money on it by the process of discounting. It differs from an ordinary trade bill in that no value has been received for it. Accommodation Bills are also known as "fictitious bills," "kites," and "windmills."

Method of Procedure. Bills may be drawn for the accommodation of either drawer or acceptor, or for the mutual accommodation of both. The discount charges are borne by the party or parties

receiving the proceeds of the bill. The party accommodated engages—

(*a*) to provide funds for the payment of the bill at maturity;
(*b*) to indemnify the accommodating party should the latter be compelled to pay the bill.

Discharge of Bill. Where an accommodation bill is paid in due course by the party accommodated the bill is discharged. Unlike a trade bill, the principal debtor is not necessarily the acceptor, but the party accommodated.

Before proceeding to the subject of Foreign Bills it is proposed to deal with bill transactions that seem the fruitful source of difficulty to the generality of students.

BILL OF EXCHANGE TRANSACTIONS

Transactions in bills of exchange beyond the elementary stage seem a source of anxiety and difficulty to the student when attempting to provide the necessary book-keeping records therefor.

The cause of failure on bill transactions proceeds from a method of dealing with them in an attempt to follow their many bearings "as a whole." The viewpoints of the parties to the transactions seem to converge, and the student becomes unable to decide quite which set of entries belong to which party.

This dilemma seems to arise more particularly when transactions relating to accommodation bills are being dealt with.

Practical problems of this kind are best dealt with a step at a time. The student must determine whose books shall be *first* dealt with, following upon which the relevant transactions will be extracted, and then it will be seen that a clear grasp of certain facts has resulted. Perhaps two examples of transactions in accommodation bills will more clearly explain the "piecemeal" method of handling such transactions.

Example 1. On 1st January A draws on B for his personal accommodation a bill at three months for £200 which he immediately discounts with his banker. The banker charges 5 per cent. On maturity, A honours his obligation to B by a cheque, with which B meets the bill. Show the entries in the books of both parties.

Method of Procedure and Solution. It must first be determined "whose books shall be prepared *first*—A's or B's" The wavering between A's viewpoint and B's viewpoint will lead to disaster and must be avoided. Take A's standpoint, and the transactions he is concerned with will readily emerge; they are as follows—

1. A draws on B.
2. A discounts B's acceptance, being charged discount at 5 per cent.
3. A remits cheque to B.

The accounts will be as under—

A's LEDGER

Dr. BILLS RECEIVABLE ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Jan. 1	To B . .		200	-	-	19— Jan. 1	By Bank . .		200	-	-

Dr. B's ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Apr. 4	To Bank . .		200	-	-	19— Jan. 1	By Bills Receivable .		200	-	-

Dr. BANKERS' DISCOUNT ACCOUNT *Cr.*

			£	s.	d.						
19— Jan. 1	To Bank . .		2	10	-						

Dr. BANK ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Jan. 1	To Bills Receivable .		200	-	-	19— Jan. 1	By Discount Charges .		2	10	-
						Apr. 4	„ B . .		200	-	-

The entries in the Bank Account agree with the method of entry as shown in the Bank Pass Book. An alternative method is to utilize the discount column on the debit side, and extend the net amount of the bill in the bank column, so—

Dr. CASH BOOK

Date	Particulars	Fo.	Discount			Bank		
			£	s.	d.	£	s.	d.
19.. Jan. 1	To Bills Receivable. .		2	10	-	197	10	-

NOTE. The discount is calculated on the "period" the bill has to run, and not as a percentage on the amount as for cash discount.

Now that A's books have been prepared it is a simple matter to deal with the transactions as they affect B. B is concerned with the following transactions—

1. Accepts A's draft.
2. Receives £200 from A.
3. Honours his acceptance.

The following are the accounts he will prepare—

B's LEDGER

Dr. A's ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Jan. 1	To Bills payable		200	-	-	19— Apr. 4	By Bank .		200	-	-

Dr. BILLS PAYABLE ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Apr. 4	To Bank .		200	-	-	19— Jan. 1	By A . .		200	-	-

Dr. BANK ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Apr. 4	To A . .		200	-	-	19— Apr. 4	By Bills payable		200	-	-

Example 2. On 1st January A and B draw on each other at three months for £200. They discount each other's bills, the banker's discount charges being 5 per cent per annum. On the due date of the bills each meets his own acceptance. Show the accounts in the books of both parties.

Method of Procedure and Solution. As in the first example, "whose books shall be prepared first?" Take A's viewpoint, and the transactions develop in the following order—

1. A draws on B.
2. A accepts B's draft.
3. Discounts B's acceptance.
4. Honours own acceptance.

A's ledger will show the following accounts—

A's LEDGER

Dr. B's ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Jan. 1	To Bills payable		200	-	-	19— Jan. 1	By Bills Receivable .		200	-	-

Dr. BILLS RECEIVABLE ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Jan. 1	To B . .		200	-	-	19— Jan. 1	By Bank . .		200	-	-

Dr. BILLS PAYABLE ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Apr. 4	To Bank .		200	-	-	19— Jan. 1	By B		200	-	-

Dr. BANKERS' DISCOUNT ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Jan. 1	To Bank .		2	10	-						

Dr. BANK ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19— Jan. 1	To Bills Receivable .		200	-	-	19— Jan. 1	By Discount Charges .		2	10	-
						Apr. 4	„ Bills payable		200	-	-

Having established the position of A in regard to the question, it remains now to indicate the transactions as they affect B; they are as follows—

1. B draws on A.
2. B accepts A's draft.
3. Discounts A's acceptance.
4. Honours own acceptance.

As will be seen, the accounts B will raise are parallel with those of A, except for the personal account, and it is, therefore, deemed unnecessary to draft B's ledger.

A point, however, that must be emphasized is that A's and B's accounts are viewed as being separately prepared, and from different angles. For instance, "A drawing on B" is, in A's books, represented by two accounts, namely, (1) "B" and (2) "Bills Receivable"; whereas in B's books the same transaction is recorded in accounts named "A" and "Bills payable" respectively. By a strict application of the method outlined above it is thought the student will acquire a clearer grasp of matters concerning bill transactions.

Dishonour. Questions on dishonoured bills are again the occasion of difficulty to students, and it would seem due to an attempt to focus the position of all those concerned with the negotiation of the bill to date of dishonour when determining what book-keeping records are necessary. It is now proposed to deal with an example of this kind of question.

Question. J failed to honour his acceptance to A of Bill No. 14 for £200 on the due date. The Noting Charges were 5s. Show the necessary book-keeping records in connection therewith. There are several circumstances under which dishonour may arise;

state these, and express the "records" applicable to the different circumstances of dishonour.

Method of Procedure and Solution. It is necessary to be quite clear that the books wherein the records will be made are those of the "drawer." Avoid speculating as to the relation of any of the other parties to the bill the subject of dishonour at this point. First then, all the book-keeping entries are viewed from the drawer's position. The next step is to put down in order the circumstances under which J's acceptance may be dishonoured, which are as follows—

1. The bill still in the hands of the drawer.
2. The bill has been since discounted with the banker.
3. The bill has been handed to the banker for collection.
4. The bill has been previously endorsed over to a creditor.

Now the position is clear for proceeding to make the book-keeping records required by the terms of the question. Before preparing the books, it may be stated that the subsidiary books *only* need be prepared when answering this type of question—unless specific instructions for complete workings are given as a part of the question

1. On dishonour when the bill is still in the hands of the drawer.

A's BOOKS

JOURNAL *Dr.* *Cr.*

			£	s.	d.	£	s.	d.
	J		200	–	–			
	To Bills Receivable . . .					200	–	–
	Cancellation of bill No. 14.							

The Noting charges will be the subject of a Cash Book entry as under—

CASH BOOK (Payments Side) *Cr.*

			Office £	Office s.	Office d.
	By J (noting charges on dishonour) . .			5	–

2. On dishonour when the bill has since been discounted with banker; and

3. On dishonour when the bill has been sent to the banker for collection.

CASH BOOK (Bank Account) *Cr.*

				£	s.	d.
	By J (Dishonoured Bill and noting charges) .			200	5	–

Should the " drawer " and not the banker get the bill noted, then the " Office column " would show 5s. for noting charges, and the " bank column " would show £200—the amount of the bill.

4. On dishonour when the bill has been endorsed over to a creditor.

JOURNAL *Dr.* *Cr.*

			£	s.	d.	£	s.	d.
	J . . . . . . *Dr.*		200	5	–			
	To A. Creditor					200	5	–
	For amount of bill and noting charges.							

After dishonour it is frequently the case that bills are renewed, i.e. the existing bill is cancelled, as mentioned above, and a new one is made out for the whole or part of the amount owing and including interest. The book-keeping entries necessary are—

(1) Bills Receivable.	(2) For Bills Payable.
JOURNAL T *Dr.* To Bills Receivable Cancellation of bill.	JOURNAL Bills Payable *Dr.* To M Cancellation of bill.
T *Dr.* To Interest Interest charged for extended period of credit.	Interest *Dr.* To M Interest charged for extended period of credit.
Bills Receivable *Dr.* To T For new bill, including interest.	M *Dr.* To Bills Payable For new bill, including interest.
Interest on bills receivable is a GAIN.	Interest on bills payable is a LOSS.

Further Case. In exercise work on bills it is not unusual to meet with this transaction, " Endorsed B's acceptance over to Q in consideration of which Q credited my account with £195; the bill was drawn for £200." This transaction includes a charge for interest on the tenor of the bill. Students should attempt to take up the practical standpoint. It is obvious that Q must charge for the period he has to wait before he can encash B's acceptance (assuming he waits till date of maturity). Hence, the book-keeping records will be as under—

JOURNAL *Dr.* *Cr.*

			Dr. £	s.	d.	Cr. £	s.	d.
	Q		200	–	–			
	To Bills Receivable . . .					200	–	–
	Endorsement of B's acceptance.							
	Interest		5	–	–			
	To Q					5	–	–
	Interest charged on unexpired term of bill (loss).							

On pages 195 and 196 are shown many bill transactions, the entries for which students are advised to trace in the *model* working which follows.

FOREIGN BILLS

Definition. According to Section 4 of the Bills of Exchange Act a " foreign " bill is any other bill which does not come within the definition of an inland bill. It is generally defined as " a bill drawn in one country but payable in another." Foreign bills are usually drawn in sets of three, called " vias," and generally contain the phrase " value received " or " value in account." Each via is

LONDON,
21 *Jan.*, 19..

Exchange for £800.

8/-

Thirty days after sight pay this First of Exchange (Second and Third of the same date and tenor unpaid) to Messrs. Carpentier et Cie, or order, eight hundred pounds, value in account.

J. ROWELL.

To Messrs. Hachette Frères,
Lyons.

numbered and stipulates that it is to be paid only if the other two vias are unpaid. To minimize the risk of loss, and to avert the delay arising therefrom, the three forms are dispatched at different times, i.e. by different mail steamers.

Documentary Bills. These are foreign bills having certain documents attached.

Clean Bills. These are foreign bills having *no* documents attached.

Form of Bill. There is no particular form of bill required by the Act. On page 98 is a specimen in common use.

Sum Payable. In addition to the cases mentioned under Inland Bills, the sum payable by a bill is a sum certain within the meaning of the Act, although it is required to be paid—

According to an indicated rate of exchange, or according to a rate of exchange to be ascertained as directed by the bill.

The sum for which a foreign bill is drawn is often stated in the currency of the country where it is payable. Where a bill is drawn out of, but payable in, the United Kingdom, and the sum payable is not expressed in the currency of the United Kingdom, the amount in the absence of some express stipulation, is calculated according to the rate of exchange for sight drafts at the place of payment on the day the bill is payable.

Bill in a Set. Where a bill is drawn in a set, each part of the set being numbered, and containing a reference to the other parts, the whole of the parts constitute one bill. The acceptance may be written on any part, and it must be written on one part only. Any person who accepts, or any person who endorses, more than one part will be liable on the said parts as if they were separate bills. With these exceptions, where any one part of a bill drawn in a set is discharged by payment or otherwise, the whole bill is discharged.

Sola. This term, or "Sola Draft," "Sola of Exchange," appearing on a bill of exchange means that it is the sole or only bill, i.e. that the bill has not been drawn in a set. With near countries, nowadays, one copy, or a first and second of exchange, are often deemed sufficient, as the mail service is more regular and reliable than in former times.

Foreign Bills Drawn in Sterling. The custom has long prevailed amongst English merchants of drawing on their foreign customers in the home currency instead of in the currency of the country where the bill is payable, and of stipulating that the bill shall be paid at the rate of exchange ruling on the day of the first London endorsement. For example (page 100).

When the bill is sold the endorsement would be similar to the following—

Pay T. Ruelli & Co., or Order, at the exchange of 25 lire and 66 centesimi for £1 sterling.

£227 16s. 11d. LIVERPOOL,
15 *Sept.*, 19..

3/-

Three months after date pay this First of Exchange (second and third same date and tenor unpaid) to Signor F. Spraghetti, or order, the sum of two hundred and twenty-seven pounds sixteen shillings and eleven-pence, at the rate of exchange as per first London endorsement, value received, and charge to account as per advice.

ROGERS & SON.

To Signori Bellami & Cia,
Genoa.

The buyer, i.e. the London banker or broker, will write the rate of exchange and the currency amount on the bill underneath the sterling figures; and this information will be sent by the drawer to the drawee, so that the latter may verify the exchange and know what amount he will eventually have to pay. The great advantage of this method to the drawer is that he obtains the cash for the full amount of his invoice, and thereby obviates the risk of loss in Exchange. The custom seems to have originated from the violent fluctuations of Exchange in time of war or panic, and the consequent desire of the drawer to protect himself against the resultant loss. The foreign merchant thus bears the loss arising from Exchange; for no matter how low Exchange falls, he must provide a sufficient amount of the foreign currency to purchase a bill for the required sterling sum. At the same time, however, he stands a chance, should the rates be favourable, of making a profit on Exchange.

Stamp Duty. On bills drawn in the United Kingdom and payable abroad, and on bills drawn abroad and payable in the United Kingdom, the stamp duty is the same as for inland bills. Foreign bills both *drawn* and expressed to be *payable out* of the United Kingdom, but which are actually paid, endorsed, or negotiated *in* the United Kingdom, are stamped as follows—

Up to £50, like an inland bill.
Exceeding £50, but not exceeding £100, 6d.
,, £100, 6d. for every £100 or fraction of a £100.

When foreign bills are payable on demand, or within three days after date or sight, a postage stamp may be used; in other cases, a proper adhesive foreign bill stamp must be affixed and

properly cancelled by the first person dealing with the bill. A foreign bill (as described in this paragraph) need not be stamped before it is issued, but it must be stamped before it is negotiated in the British Isles. If the bill is drawn in foreign currency the amount, for the purpose of stamp duty, is calculated according to the rate of exchange mentioned in the bill; or if no rate is mentioned, then it is calculated according to the rate of exchange current on the date of the bill. Stamps required by the laws of foreign countries are usually affixed by the foreign customer and debited to the account of the English merchant.

Example.

Marseille,
le 20 juin, 19..

Bon pour Francs 5,000.

Timbre

A soixante jours de vue payez contre cette PREMIÈRE de CHANGE (Seconde et Troisième ne l'étant) à l'ordre de Monsieur Louis P. Corneille la somme de ciuq mille francs, valeur reçue en marchandises, que passerez à mon compte suivant avis.

Accepté 15 juillet, 19..
payable au Crédit
Lyonnais succursale
á X. Léon Tulle.

A. M. Léon Tulle,
à X.

Adhesive
foreign
bill
stamp
1/-

P. LOUBET.

No. 1726. Au besoin chez M.M.B. et Cie.

For the purposes of the Bills of Exchange Act, bills drawn in the Channel Islands and the Isle of Man are *inland* bills; yet, for the purposes of the Stamp Act, these bills are *foreign* bills and require, not the impressed inland revenue stamp, but the adhesive foreign bill stamp.

Assuming the above bills, drawn and payable abroad, to be actually paid, endorsed, or negotiated in the United Kingdom, they must be stamped with foreign adhesive bill stamps for 1s. and 1s. 6d. respectively.

Usance. It is customary for foreign bills to be made payable at one or more "usances," i.e. time of payment as fixed by custom.

For instance, the usance between London and New York is sixty days after sight, between London and Bombay thirty days after sight (30 d/s.). Double usance means double the usual time, and so on. The usance prevailing between any two countries depends upon (*a*) the distance apart, (*b*) the means and facilities for communication, (*c*) the nature of the mercantile transactions.

After Sight. Foreign bills are generally drawn payable at so many *days* " after sight." This ensures the drawee having the benefit of the full period of time, and not losing, as when bills are drawn in months, one day in April, June, September, and November, and three days in February. The acceptor of such bills must, therefore, sight or date his acceptance, as the time for maturity begins to run from the date of such acceptance and not from the date on which the bill was drawn. The following is an example of a foreign bill duly sighted—

Exchange for $4,000.			LONDON, 21 Jan., 19..
9/-	At sixty days'	Sighted 28 Jan., 19..: Accepted payable at National Bank, New York, A. B. & Co.	sight pay this First of Ex-
	change (Second		and Third of same date
	and tenor un-		paid) to the order of Mr.
	James Retrop		the sum of four thousand
	dollars, value		received, and place
	to account as		advised.
To Messrs. A B & Co. New York.			R. BRABY.

Days of Grace. These are almost non-existent in foreign countries; there are no days of grace in France, Italy, Russia, Holland, Belgium, Norway, Sweden, Denmark, or in New York State. Foreign bills payable in this country, however, get the benefit of the three days of grace.

How Foreign Bills are Dealt With. Unless the foreign country happens to be a very near one, foreign bills are not sent for acceptance and return as in the case of inland bills. If the drawer has both a debtor and a creditor in the foreign country he will draw the bill on the debtor payable to the creditor. The latter will then obtain the drawee's acceptance and credit the amount of the bill to the account of the drawer. If the drawer has no creditor in the

country where the bill is payable, he will draw the bill payable to his own order, endorse it, and discount it with his banker, who will no doubt have a branch, agent, or correspondent in the country where the bill is payable. Or, if he himself is of good financial standing, he may elect to dispose of it to the bill brokers and foreign bankers, who meet on Tuesdays and Thursdays at the Royal Exchange, London, for the purpose of buying and selling foreign bills.

Noting and Protest. Where a foreign bill has been dishonoured by non-acceptance, it must be duly protested for non-acceptance; and where such a bill, which has not been previously dishonoured by non-acceptance, is dishonoured by non-payment, it must be duly protested for non-payment; otherwise, the drawer and endorsers are discharged. The noting and protest is the only recognized evidence of dishonour in many foreign courts.

Damages on Dishonour. In the case of a bill which has been dishonoured abroad, in lieu of the usual damages (mentioned under Inland Bills), the holder may recover from the drawer or an endorser, and the drawer or an endorser who has been compelled to pay the bill may recover from any party liable to him, the amount of the re-exchange, with interest thereon until the time of payment.

Re-exchange. This is the loss resulting from the dishonour of a bill in a country different from that in which it was drawn or endorsed. The re-exchange is ascertained by proof of the sum for which a bill at sight must be drawn in order to realize, at the place of dishonour, the amount of the dishonoured bill and the expenses consequent upon dishonour. The latter comprise the expenses of protest, postage, commission, brokerage, and the cost of the stamp when a re-draft is necessary.

Conflict of Laws. Where a bill drawn in one country is negotiated, accepted, or payable in another—

(*a*) The validity of the bill as regards requisites in form is determined by the law of the place of issue, and as regards the supervening contracts, such as drawing, endorsement, acceptance, or acceptance *supra* protest, by the law of the place where such contract was made.

(*b*) The duties of the holder with respect to presentment for acceptance or payment, and with respect to notice of dishonour, protest, etc., are determined by the law of the place where the act is done or the bill dishonoured.

(*c*) The due date of the bill is determined according to the law of the place where it is payable.

Differences between Inland and Foreign Bills. These may be summed up as follows—

1. An inland bill must be written on duly stamped paper (except

where the duty is only 2d.). A foreign bill can be issued *before* being stamped.

2. A foreign bill is usually made payable at one or more usances. Inland bills are drawn payable at any period the drawer chooses.

3. A foreign bill, if dishonoured, must be duly noted and a protest drawn up. With inland bills noting and protest are optional (except in cases of acceptance and payment for honour).

4. Foreign bills are usually drawn in sets; inland bills are drawn singly.

DOCUMENTARY BILLS

Definition. A Documentary Bill is a foreign bill having certain "documents of title" attached. The documents are usually the invoice of the goods, the bill of lading, insurance policy, and, sometimes, a letter of hypothecation.

Nature and Use of Documents Attached. Foreign bills, especially those relating to shipping orders and consignments, are discounted or sold before they are accepted. The banker is thus taking a considerable risk, and seeks to protect himself by obtaining possession of the relative shipping documents. The invoice is required in order to identify the goods, and must be produced to the customs officials at the port of delivery. The bill of lading, duly endorsed, gives the banker a title to the goods; and the shipping company will deliver only in exchange for the bill of lading. The insurance policy, duly endorsed, is the banker's security for indemnity in case the goods are lost owing to the perils of the sea. The letter of hypothecation pledges the goods as security for the payment of the bill, by giving the banker the right, in the event of the bill being dishonoured by non-acceptance or non-payment, to dispose of the goods and to charge any deficiency to the drawer. Documentary bills are also bought and sold by bill brokers. They form a convenient means of settling debts in the countries where the bills are payable, the documents attached affording security to the purchaser.

Letter of Hypothecation. On page 105 is a specimen.

Letters of Hypothecation are seldom used nowadays, the banker referring, on dishonour, to the drawer for instructions, repayment of bill, and disposal of goods. This is more particularly the case where the drawer keeps a substantial current account with the bank concerned.

Method of Procedure. The banker having discounted the bill, or made the required advance, generally 80 to 90 per cent *less* charges, forwards the bill (the first copy being duly stamped), together

LONDON,
20*th June*, 19..

THE SAFE BANK, LTD.,
Hillcorn,. E.C.

Dear Sirs,

We enclose herewith bill for £600 at 90 days' sight drawn by us on Messrs. Roberts & Son, Wellington, New Zealand. In consideration of your advancing to us on same 80 per cent, namely £480, we hand you the following set of shipping documents—

Invoice for 20 Cases of Goods, value £600, in triplicate;

Bill of Lading for above 20 cases marked R. & Son 626/57, in triplicate;

Policy of Marine Insurance for £650, in duplicate.

Freight on the goods has been paid by us.

In the event of the said bill being dishonoured, we authorize you to sell such goods for our account and at our risk, and to charge us with the usual expenses and commission.

Yours faithfully,

F. FRANCIS & CO.

with the original documents attached, to his branch or agent at the place of destination of the goods. A second set is sent by the next mail, the third set being retained by the banker. When the goods arrive they are unshipped and stored in the dock warehouses by the banker's agent, who calls upon the drawee for acceptance or payment of the bill, in return for which he surrenders the documents. Where the drawee is a trader of good financial standing, the banker's agent will release the goods as soon as the bill has been accepted; in such cases the bill generally contains the clause "*documents attached to be surrendered on acceptance.*" In other cases, the agent will be instructed to obtain not only acceptance, but payment of the bill at maturity, before releasing the goods. With some indents (shipping orders from abroad) the bill is drawn at such a period, that maturity of the bill will coincide with the arrival of the goods. If the customer so desires, he may pay the bill by instalments, obtaining in return a corresponding portion of the goods. Where the customer wishes to secure possession of the whole of the goods before maturity of the bill, in order to take advantage of a favourable market, he may retire the bill under rebate, that is, a cash discount for the unexpired term of the bill.

The banker's charges include, not only commission and cost of stamp that may be necessary in the foreign country, but also interest from the date of the bill up to maturity. And hence, if the bill is paid before the due date, the banker will be quite willing to forego the unearned portion of the interest. Bills drawn in sterling, and not in the currency of the country whence they are forwarded, are payable at some specified rate of exchange; and, in such cases, the banker's charges may be covered by the rate of exchange at which he buys the bill. Sometimes, the amount to be paid is the amount of the bill, plus interest on it up to the time when the remittance in payment reaches London, or other place of making the original advance. On receipt of advices that the bill has been duly honoured, the banker will pay the remaining 10 or 20 per cent due on the bill. Documentary bills are used principally in the import and export trade, both of which are virtually financed by means of these bills under the above-mentioned procedure. Inward and outward shipments are also made against bills drawn payable at sight, but more usually against bills drawn at ordinary usance.

Examples of Documentary Bills. The following are fair specimens of the documentary bills in ordinary use—

No. 356. LONDON,

Exchange for £600. 20*th June*, 19..

6/-

Ninety days after sight of this FIRST OF EXCHANGE (Second and Third of same date and tenor unpaid) pay to us or our Order the sum of Six hundred pounds, value received against | R. & Son | 626/45 = 20 Cases of Goods per ss. *Crown Prince*, and place to account as advised. Shipping documents attached to be surrendered on payment.

To Messrs. Roberts & Son,
Wellington,
New Zealand.

F. FRANCIS & CO.

The above bill would be endorsed—

Pay to the Safe Bank, Ltd., or Order,
F. Francis & Co.

No. 764. LONDON,
Exchange for £450. *4th Jan.*, 19..

5/-

Sixty days after sight of this FIRST OF EXCHANGE (Second and Third of same date and tenor unpaid) pay to our order the sum of Four hundred and fifty pounds sterling, payable at the National Bank of India's drawing rate for demand drafts on London, with interest at six per cent per annum added thereto from date hereof to approximate due date of arrival of the remittance in London, value received against $\boxed{\text{S.S. \& S.}}$ 623/89 = 15 bales of Cotton Goods per ss. *Queen Maud.* Shipping documents attached to be surrendered on acceptance.

S. SELLER & SON.

To Messrs. Byjamji & Co.,
Bombay.

The above bill would be endorsed by the drawers, thus—

Pay The National Bank of India, or Order,
S. Seller & Son.

PROMISSORY NOTES

Definition. By the Bills of Exchange Act, 1882, a Promissory Note is defined as—

An unconditional promise in writing made by one person to another signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer.

Promissory Notes are used chiefly for loan transactions. Like bills of exchange, they are negotiable instruments, and can be transferred for value. They are sometimes discounted, and are subject to days of grace, unless payable on demand. Promissory Notes payable *to bearer* on demand for a sum greater than £1 and less than £5 are void in England.

Form of Note. There is no special statutory form of promissory note, but on page 108 is a typical specimen of those in current use.

Stamp Duty. The stamp duty on promissory notes is the same as for bills of exchange, except that it is always *ad valorem*, whether the note is payable on demand, or within three days, or otherwise.

£120.	LONDON,
	1st *July*, 19..
Stamp 2/-	Two months after date I promise to pay to Mr. T. Green, or order, the sum of One hundred and twenty pounds, for value received.
	Y. YELLOW.

Parties to a Note. There are two parties to a promissory note—

(*a*) **Maker,** the party who writes out the note, i.e. the debtor. In the example given Y. Yellow is the maker.

(*b*) Payee, the person to whom the money is payable, i.e. the creditor. In the example given T. Green is the payee.

Kinds of Notes. Promissory notes are of two kinds, inland and foreign.

An Inland Note is one which is, or on the face of it purports to be, both made and payable within the British Islands. Any other note is a foreign note.

Difference between Promissory Note and Bill of Exchange. The following points of difference should be carefully noted—

1. A Note is a *promise* to pay, a Bill is an *order* to pay.
2. Bills are often drawn *in sets*, notes are made *singly*.
3. There are *three* parties to a Bill, but only *two* to a Note.
4. A Bill is drawn by the *Creditor*, a Note is made out by the *Debtor*.
5. A Bill requires *acceptance*, a Note does *not*.
6. Foreign Bills when dishonoured must be *protested*, foreign Notes need *not*.
7. A Note payable on demand requires an *ad valorem* stamp, a Bill only a 2d. stamp.

Joint Notes, Joint and Several Notes. By Section 85 of the Bills of Exchange Act—

(1) A promissory note may be made by two or more makers, and they may be liable thereon jointly, or jointly and severally according to its tenor.

(2) Where a note runs, "I promise to pay," and is signed by two or more persons, it is deemed to be their joint and several note.

On page 109 is a specimen of a Joint Note.

To convert the above into a Joint and Several Note it would have to be amended to read, "I promise to pay," or "We and each of us promise to pay," or "We jointly and severally promise to pay." A Joint and Several Note has a great advantage over a mere Joint

Note, because it enables the holder to sue the makers not only jointly but also individually.

£100.	LONDON, 25th *Feb.*, 19..
1/-	Four months after date we promise to pay to Mr. R. J. Porters the sum of One hundred pounds, value received. W. MARSHMAN. T. BAYES.

Note Payable on Demand. Like a bill of exchange a note is payable on demand—

(*a*) Which is expressed to be payable on demand, or at sight, or on presentation; or

(*b*) In which no time for payment is expressed.

Presentment for Payment. Where a promissory note is in the body of it made payable at a particular place, it must be presented for payment at that particular place in order to render the maker liable. In any other case, presentment for payment is not necessary in order to render the *maker* liable. Presentment for payment is necessary in order to render an *endorser* liable.

Liability of Maker. The maker of a promissory note by making it—

1. Engages that he will pay it according to its tenor.
2. Is precluded from denying to a holder in due course the existence of the payee and his then capacity to endorse.

Promissory Note and Collateral Security. By Section 83 (3) of the Act, " A note is not invalid by reason only that it contains also a pledge of collateral security with authority to sell or dispose thereof."

Bills of Exchange Act and Promissory Notes. The provisions of the Bills of Exchange Act apply also to promissory notes, with the following exceptions—

(*a*) Present for acceptance; (*b*) Acceptance; (*c*) Acceptance *supra* protest; (*d*) Bills in a set; (*e*) Protest on dishonour.

In applying the provisions of the Act, the maker of a note is deemed to correspond with the acceptor of a bill, and the first endorser of a note is deemed to correspond with the drawer of an accepted bill payable to drawer's order.

Foreign Promissory Notes. A Foreign Note is any note that does not come within the definition of an Inland Note. On page 110 is a specimen.

Example. BILLET À ORDRE

PARIS, *le* 15 *Janvier*, 19..	Bon pour Francs 2,500.
Timbre	A deux mois de date je payerai à Monsieur Paul Coppée, ou à son ordre, la somme de francs deux mille cinq cents, valeur reçu en espèces. LOUISE PEINE.

BANK NOTES

Definition. These are promissory notes, payable to bearer on demand, issued by English, Scotch, and Irish banks. They may be re-issued after payment, and usually are, except by the Bank of England.

Right of Issue. The Bank of England now has the monopoly of note issue for England and Wales.

Amounts for which Notes may be Issued. In England and Wales notes are now issued for sums £5 and upwards, £1, and 10s. These £1 and 10s. notes of the Bank of England replaced the Treasury notes in 1928. Scottish and Irish notes are issued for sums of £1 and upwards.

Bank Notes Negotiable Instruments. Bank of England notes are legal tender for all amounts. As they are negotiable instruments the holder of a bank note, provided he has taken it *bona fide* and for value, can retain it against everybody, even the lawful owner. The bank may have "stopped payment" of certain stolen notes, but is nevertheless liable to a *bona fide* holder for value. For greater safety, when being sent by post, bank notes can be cut in halves, one half being forwarded by one post, and the other by a later one. The halves must be pasted together before being presented for payment; but the mutilation does not affect their negotiability.

BANK DRAFTS

Definition. Bank drafts are bills of exchange drawn by one banker on another. As any person can buy from a banker a draft payable in any part of the United Kingdom, or in any country abroad, they form a convenient means of remitting money. They possess a certain security against fraud, inasmuch as the other bank is notified of the amount of the draft. On inland drafts a small commission is charged, but with foreign drafts this will be covered by the rate of exchange at which they are purchased.

IOU

Definition. An IOU is a written memorandum or acknowledgment of indebtedness. The letters IOU are a contraction for the phrase "I owe you," the sounds of both being identical. The following is an example—

	LONDON, *10th Jan.*, 19..
To Mr. Alfred Brown,	
IOU £30 10s. 6d.	
	WILLIAM THORNYCROFT.

Points to be Noted. An IOU does not require a stamp, as it is neither a receipt nor an agreement. It should not contain any promise or date of repayment, otherwise it would require stamping as a promissory note. It is not a negotiable instrument. In a court of law it is accepted as evidence only of an account stated between the parties mentioned, but not of the amount named. The amount is sometimes written in words as well as in figures.

CHEQUES

Definition. By the Bills of Exchange Act, 1882—

A cheque is a bill of exchange drawn on a banker payable on demand.

And, with a few exceptions, the provisions of the Act applicable to bills of exchange payable on demand apply also to cheques.

Example. The following is a specimen of a cheque—

No. 365,907	No. 365,907. LONDON,	
6 *Jan.*, 19..	*6th Jan.*, 19..	
	THE ENGLISH BANK, LIMITED, LONDON, E.C.	*Stamp* 2d.
Retrop & Co.	Pay to *Messrs. Retrop & Co.* or Order the sum of *Seventy-six pounds fifteen shillings and ninepence.*	
a/c		
rendered.	ARTHUR J. BROWNLEY.	
£76 . 15 . 9	£76—15—9	

The form is perforated ready for division into two parts. The smaller portion, called the **counterfoil**, is retained in the cheque book for reference. The larger portion, called the **cheque**, is forwarded

to the payee mentioned thereon. In the case of large firms and of limited companies, the names of such firms or companies are often printed at the top of their cheques.

Bearer Cheques. A bearer cheque is one payable to bearer, i.e. that can be cashed or negotiated without previous endorsement.

Order Cheques. An order cheque is one payable to a certain person's order. It must be endorsed before it can be cashed or transferred. The endorsement by the payee turns an order cheque into a bearer cheque unless the payee endorses it payable to the order of someone else.

Open Cheques. An open cheque is one that has not been crossed, i.e. one that can be cashed over the counter.

Stale Cheques. A stale cheque is one that has been drawn for some time previous to presentation for payment, i.e. one that is some months old.

Alterations on Cheques. All alterations on a cheque must be initialed by the drawer. Owing to forgeries in this respect, some bankers require full signatures instead of mere initials. Only the drawer may alter a cheque from order to bearer, but either the holder or drawer may alter a bearer cheque to an order cheque. The latter alteration does not require initialing. Where the amount expressed in words does not agree with the amount expressed in figures, the banker is bound *by the words*. Many bankers, however, return such cheques for correction.

Post-dated Cheques. These are cheques that bear a date later than the current date on which they are drawn. They cannot, however, be cashed before the proper date. If they are paid in to a bank for collection the banker will return them, unless instructed to keep them and treat them as short bills. If a banker inadvertently pays a post-dated cheque, he must not debit his customer's account with the amount before the proper date. Although by the Act a cheque "is not invalid by reason only that it is post-dated," yet it is doubtful whether a post-dated cheque for an amount exceeding £10 is valid, owing to the stamp on it being only 2d. In book-keeping, post-dated cheques are best entered "short" (i.e. the amounts not extended into the money columns) in the Cash Book, in order to prevent their being lost sight of; on the proper date they can then be re-entered in the usual way.

Fictitious or Non-existing Payee. Where a cheque is payable to a fictitious or non-existing payee, such as a cheque drawn payable to *Wages*, *Petty Cash*, or *Order*, it may, by Section 7 of the Bills of Exchange Act, 1882, be treated as a cheque payable to bearer, that is, as not requiring an endorsement. Some bankers, however, request the person drawing the money to sign his name on the back of the cheque, while others require the personal signature of the drawer of the cheque; but the majority cash them without

any endorsement. It appears that the endorsement of the drawer is required by the former on the ground that an "impersonal" payee is not a "fictitious" payee within the meaning of the Act.

Crossed Cheques. The provisions of the Bills of Exchange Act with reference to the crossing of cheques are found in Section 76 to Section 78, and are as follows—

By Section 76—

1. Where a cheque bears across its face an addition of—

(*a*) The words "and company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable"; or

(*b*) Two parallel transverse lines simply, either with or without the words "not negotiable"; that addition constitutes a crossing, and the cheque is crossed generally.

2. Where a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable," that addition constitutes a crossing, and the cheque is crossed specially and to that banker.

By Section 77—

1. A cheque may be crossed generally or specially by the drawer.
2. Where a cheque is uncrossed, the holder may cross it generally or specially.
3. Where a cheque is crossed generally, the holder may cross it specially.
4. Where a cheque is crossed generally or specially, the holder may add the words "not negotiable."
5. Where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker for collection.
6. Where an uncrossed cheque, or a cheque crossed generally, is sent to a banker for collection, he may cross it specially to himself.

Section 78 enacts—

A crossing authorized by this Act is a material part of the cheque; it shall not be lawful for any person to obliterate or, except as authorized by this Act, to add to or alter the crossing.

The above provisions apply also to dividend warrants (Section 95).

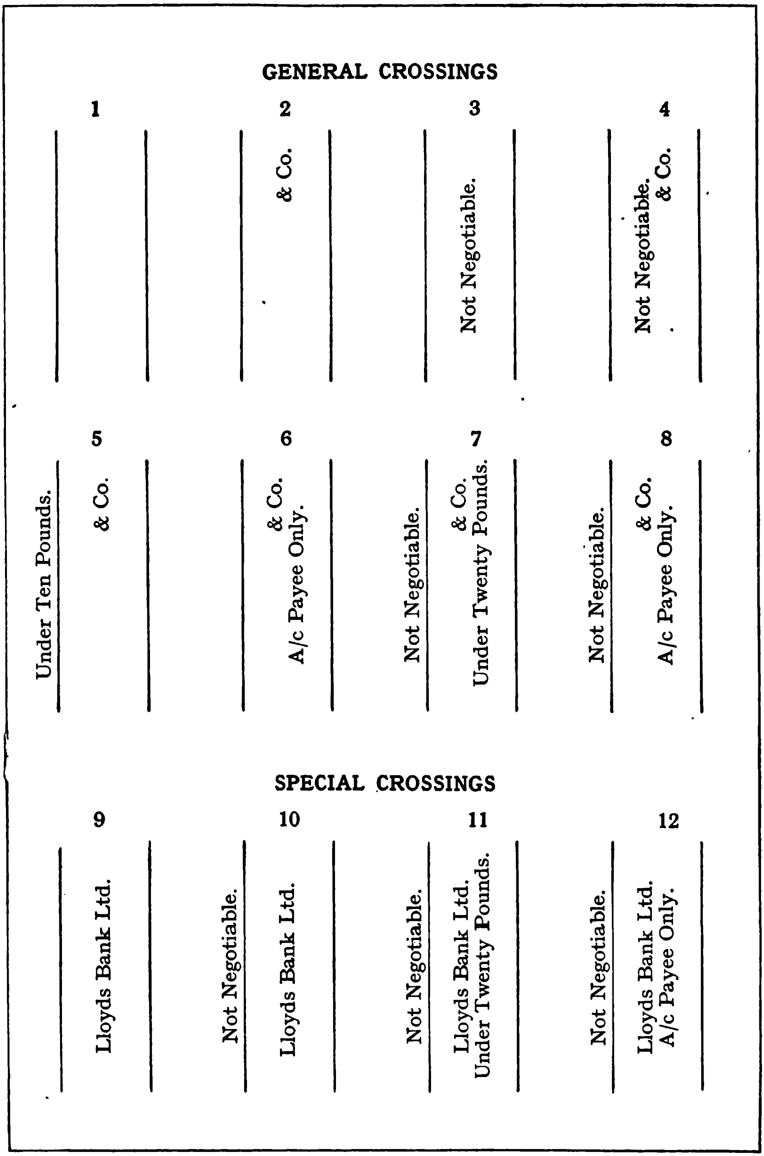
By the Finance Act, 1883, Section 17, the provisions of the Bills of Exchange Act as to crossed cheques are also extended to

. . . any document issued by a customer of any banker, and intended to enable any person to obtain payment from such banker of the sum mentioned in such document.

Thus, money orders, postal orders, demand drafts, etc., are generally crossed when sent by post or paid into a bank for collection. Such documents, however, are not rendered "negotiable."

It should be noted that the words "and Co.," or "not negotiable," do not alone form a crossing, but are merely additions to a crossing; whereas two parallel transverse lines on a cheque do, in themselves, constitute a crossing.

Specimens of Crossings. The following are examples of some of the commonest crossings—



Cancellation of Crossing. Although contrary to the provisions of the Act, the crossing of a cheque can be, and often is, cancelled by the drawer writing in the crossing the words "*pay cash.*" Payees who have no banking accounts frequently ask for this to be done. Cheques to impersonal payees, such as Salaries and Wages, Petty Cash, etc., are sometimes crossed by mistake, and have consequently to be re-opened.

Object of Crossing a Cheque. The object of crossing a cheque is to prevent its being cashed over the counter by anyone who might accidentally or fraudulently obtain possession of it. A crossed cheque will not be paid to anyone except a banker; and if the banker's name is added in the crossing, then payment will be made only to that particular banker. The practice of crossing originated as a Clearing House custom, and was eventually recognized by law.

Not Negotiable. A cheque being a negotiable instrument, any *bona fide* holder can retain it, even though the cheque has been lost or stolen. To protect the owner against damage by loss or theft, the words "not negotiable" may be written on the cheque by the drawer or by any holder. The addition of these words does not, therefore, prevent the further transfer of the cheque.

If the cheque has been found or stolen and passed on to another person, the holder's title is defective, even if he has given value for it; he can legally be made to restore the cheque to its rightful owner.

It should be noted that the phrase "not negotiable" applies, legally, only to crossed cheques. Other documents could, of course, be marked "not negotiable," but it would have no legal effect.

Account Payee Only. Bankers have been in the habit of ignoring this crossing, because it was not found, or provided for, in the Bills of Exchange Act. But custom seems likely to prevail, and, as with other cases of the *lex mercatoria*, eventually to graft itself upon the law. The object of it is still further to protect the drawer against damage should the cheque be lost or stolen. It constitutes a distinct notice to a receiving banker that the drawer desires the cheque to be placed to the credit of a certain account. And if a banker disregards this direction, he renders himself liable to an action for "negligence."

Endorsement of Cheques. Endorsing is the signing of the payee's name on the back (Latin, *dorsum* = back) of the cheque, though apparently it is quite legal if the payee signs his name on the front of the cheque. Bearer cheques do not require endorsing, though endorsements are sometimes obtained, in order to make the transferor a party to the cheque. All order cheques, however, must be endorsed. The payee should sign his name exactly as it is on the face of the cheque; but such courtesy titles as Mr., Mrs., Miss, Capt., Dr., Esq., etc., may be omitted. Where in a cheque the

payee's name has been misspelt, the payee is allowed by the Bills of Exchange Act to endorse himself as so described, and to add, if he thinks fit, his proper signature, and a bank would require the endorsement to be exactly as stated on the face of the cheque.

Endorsements in pencil are quite legal, but would not be accepted by the banker owing to the risk of their becoming illegible. Endorsements made by means of a rubber stamp would not be passed until they had been verified by the banker.

Endorsements *per pro*. Endorsements are sometimes made *per procuration*, thus—

per pro. (or *p.p.*) John Smith,
Thomas Atkins.

The full signature is necessary; the initials "T.A." would not be passed by the banker. Endorsements *per pro.* are not accepted on dividend warrants. Bankers are entitled to inquire as to the extent of the power of procuration, and may ask for confirmation of such endorsements.

Examples of Proper Endorsements. The following examples of endorsements necessary in particular cases should be carefully noted—

PAYEE	ENDORSEMENT
F. Brown (*an illiterate person*)	his F. × Brown mark Witness: John Thomas, 5 Romany Road, Southampset
Robert Bromfield	Robert Bromfield, *or* R. Bromfield (*The full Christian name is not important so long as the initials agree.*)
—. Rufus, Esq.	F. (*or other initial*) Rufus (*The mere surname is not a signature.*)
Mrs. Smith	Mary (*or other Christian name*) Smith, *or* M. Smith
Mrs. Henry Rogers	Alice Rogers, wife of Henry Rogers
Miss Dorothy Higgins (*now married*)	Dorothy Retrop *or* D. Retrop, *née* Higgins

PAYEE	ENDORSEMENT
The Misses Green	Florence Green Agnes Green *(both must sign)*
Mr. P. Brown *(mis-spelling for Browne)*	P. Brown P. Browne
Arthur Roberts, Senior	Arthur Roberts, *or* A. Roberts, *or* A. Roberts, Senior *(Some banks require the word "Senior.")*
Messrs. Smith	A. & B. Smith, *or* Smith & Son, *or* Smith Bros., *or* Smiths *(The endorsement must indicate the plural)*
The A.B.C. Co., Ltd.	The A.B.C. Co., Ltd. *or Per pro* The A.B.C. Co., Ltd., *or* For and on Behalf of The A.B.C. Co., Ltd. *or* On Account of The A.B.C. Co., Ltd., *or* For The A.B.C. Co., Ltd., B. Lilley, Secretary. *(The last endorsement is the most usual)*
Y. Young *(now deceased)*	For Y. Young, A. Wallis, (*Executor* or *Administrator*) *or* For Self & Co., *Executors* (or *Administrators*) of Y. Young, A. Wallis (ONE *executor's signature is sufficient*)
The Trustees of Y. Young	For Y. Young, A. Wallis F. Notley, A. Wade G. Sowerby, } *Trustees* (ALL *the trustees must sign*)
Self	Signature of Drawer
The X.Y.Z. Co., Ltd. *(now in liquidation)*	For the X.Y.Z. Co., Ltd. *(in liquidation)* Arthur Brown, *Liquidator*

Payee	Endorsement
Messrs. Brown & Johnson, Ltd.	For Brown & Johnson, Ltd., A. Clarke, *Cashier* (*Authorized to endorse cheques*)
Managers of Cramem School	For the Managers of Cramem School, Arthur Donne, *Chairman* *or* Arthur Donne, } *Managers of* Alfred Cook, } *Cramem School.*
Capt. W. Smith	W. Smith, *or* W. Smith, Capt. (*Not Capt. W. Smith, as this would not be a signature*)
Treasurer of the Links Golf Club, *or* The Links Golf Club	For the Links Golf Club, Frederick Player, *Treasurer*

Revocation of Banker's Authority to Pay. The duty and authority of a banker to pay cheques drawn on him by his customer are determined by—

(*a*) Countermand of payment.
(*b*) Notice of the customer's death.
(*c*) Notice of his insanity, legally declared.
(*d*) Notice of an act of bankruptcy on the part of the customer.
(*e*) Receipt of a garnishee order.

Want of funds, or any irregularity in the drawing or endorsing of the cheque, will also cause a banker to stop payment.

Cheque not Legal Tender. A cheque, it should be noted, is not legal tender. The only paper money that is legal tender in England and Wales are Bank of England Notes for all amounts.

Property in Cheques. A paid cheque is, legally, the property of the drawer. Some banks return the paid cheques in the pocket of the pass book; others do not.

Stamp on Foreign Cheques. A foreign cheque, i.e. one received from abroad, requires a twopenny stamp affixed to it, before it can be dealt with in this country.

Forgery. A forged cheque is one on which the name of the payee or the amount of the cheque has been falsified, or on which the signature of the drawer is not genuine. A banker is liable for any loss caused by his paying a cheque on which the signature of the drawer has been forged; but he is not liable for any loss caused by his paying a cheque bearing a forged endorsement.

Receipt Form on Cheques. In modern business the practice has grown up of having receipt forms printed at the foot or on the back of cheques. The signature on the receipt is intended to act also as an endorsement; but many bankers require an endorsement as well, not deeming the receipt a sufficient discharge of the cheque. Cheques for salaries should bear a notification to that effect so that the bankers may know they are exempt from receipt stamp duty.

Cheques sent through the Post. If the drawer makes the post office his agent, he must bear any loss arising from the miscarriage of the cheque. If, however, the payee has requested a cheque to be sent by post, the post office becomes the agent of the payee, who is, therefore, liable for any loss.

Cheque Stamp and Cheque Books. A piece of ordinary writing paper with a twopenny stamp affixed, ordering a banker to pay money, is legally a " cheque." There is an erroneous idea abroad that anyone can affix the stamp. The stamp, however, must be affixed by the drawer, and must be properly cancelled by him. Stamping by a subsequent party does not remedy the defect. The banker may affix a stamp and cancel it, and may deduct the twopence from the amount payable, or debit his customer's account. The other parties, however, are still liable to the penalty of £10 for issuing or dealing with an unstamped document.

The usual practice of bankers is to supply their customers with books of specially printed and numbered cheque forms. The object of this is the prevention of forgery. Each cheque, being an order to pay, must bear a 2d. stamp. Bankers make no charge for the book of forms, but debit their customers with the cost of the impressed revenue stamps. Fresh cheque books are obtained by the customer filling up and presenting the bank's printed application forms.

Dishonoured Cheques. A dishonoured cheque is one which a banker, for some reason or other, has refused to pay on presentation. Such cheques generally have some explanatory mark or phrase written on them, as follows—

N/A = No assets.
N/E = No effects.
R/D = Refer to drawer.
N/S = Not sufficient (funds).
I/F = Insufficient funds.
Endorsement irregular.
Words and figures differ.
Drawer's signature differs (i.e. from that in Bank's signature book).
Alterations require drawer's signature.
Drawer deceased.
Receipt (i.e. on cheque) requires stamp.
Account closed.

Cheque mutilated.
Effects not cleared. Present again.
Post-dated.
Payment stopped, or Orders not to pay.

Dishonoured cheques may, of course, be noted, and those bearing foreign endorsements may be protested.

Lost Cheque. Where a cheque has been lost, the holder can compel the drawer to give him a new cheque, but must give security to the drawer, if required, to indemnify him in case the lost cheque should be found and negotiated. The cheque should be marked "Duplicate," and the paying banker instructed to pay it.

Points of Difference between Cheques and Bills. Although a cheque is *legally* a bill of exchange, the following differences exist—

1. A bill requires acceptance. A cheque is never accepted by a banker. The acceptor of a bill is liable to the holder for refusing payment of it.

2. The drawer of a bill is discharged from liability by delay in presenting it for payment; the drawer of a cheque is not.

3. Notice of dishonour is necessary in the case of a bill not being met, but not in the case of a cheque.

QUESTIONS ON CHAPTER III

A

1. What is the legal definition of a bill of exchange?
2. How many kinds of bills are there? Distinguish them.
3. How many parties are there to a bill? Explain them, and distinguish between immediate and remote parties.
4. A B of London, draws, on 1st April, a bill on C D of Liverpool for £336 16s. 11d., payable 3 m/d. C D accepts, and makes the bill payable at the Royal Bank, Liverpool. Write out the bill, mark the stamp duty, and show C D's acceptance.
5. State briefly some of the advantages of bills of exchange.
6. Distinguish between (*a*) trade bill and accommodation bill; (*b*) draft and acceptance; (*c*) drawee and acceptor; (*d*) long bills and short bills.
7. What are days of grace? Are all bills subject to days of grace? How can days of grace be avoided?
8. Write down the stamp duty and due dates of the following bills—
   (*a*) £4 drawn 31st Jan. @ 1 m/d.
   (*b*) £100 drawn 15th Jan. on demand.
   (*c*) £200 drawn 16th Jan. @ 3 d/s.
   (*d*) £8 16s. 8d. drawn 28th Feb. @ 1 m/d.
   (*e*) £39 19s. 11d. drawn 31st March @ 3 m/d.
   (*f*) £62 19s. 6d. drawn 31st Dec. @ 2 m/d.
   (*g*) £84 2s. 9d. drawn 31st Aug. @ 1 m/d.
   (*h*) £299 drawn 29th Feb. @ 1 m/d, with interest at 5 per cent.
   (*i*) £299 drawn 29th Feb. @ 1 m/d, with £5 interest.
9. A trader has bills falling due on the following days (including days of grace)—

(*a*) New Year's Day; (*b*) Good Friday; (*c*) Easter Sunday; (*d*) Easter Monday; (*e*) Whit-Monday; (*f*) August Bank Holiday; (*g*) Sunday after a special Saturday Bank Holiday; (*h*) Christmas Day; (*i*) Boxing Day.
When are the bills actually payable in each case?

10. When is a bill payable—
    (*a*) On demand;
    (*b*) At a fixed or determinable future time?

B

1. Is it necessary (*a*) for the drawer of a bill to insert the phrase "for value received," (*b*) for the acceptor of a bill to write the word "accepted," (*c*) for an endorser to write the word "endorsed," or (*d*) for an acceptor for honour to write the phrase "accepted for honour"? Give reasons for your answer in each case.
2. What are negotiable instruments? Name some. What are their three distinguishing characteristics?
3. How are bills of exchange negotiated? How can negotiation be restricted (*a*) in drawing the bill, (*b*) in endorsing the bill?
4. What is meant by the acceptance of a bill? Explain (*a*) general acceptance, (*b*) conditional acceptance, (*c*) partial acceptance, (*d*) local acceptance. In what other ways can the acceptance be qualified? Is a holder bound to take a qualified acceptance?
5. Explain the following: Domicile, endorser, allonge, acceptor for honour, referee in case of need.
6. What is meant by endorsing a bill of exchange? When is it necessary, and when not? The following endorsements appear on some trade bills—
    (*a*) Pay A B.
    (*b*) Pay C D or order, A B.
    (*c*) Sans Recours, G H.
    (*d*) Pay E F only, C D.
    (*e*) Pay C D, notice of dishonour waived, A B.

    What kind of endorsements would you respectively call these?
7. What two things are necessary in order to constitute an acceptance a valid one?
8. When is presentment for acceptance necessary, and when is it excused?
9. What is meant by noting and protest of a bill of exchange? Is it always necessary?
10. Explain the terms: notary public, noting charges, noting ticket. What stamp is required on a protest? Can a householder draw up a protest?

C

1. What is meant by presentment for payment? When is it necessary, and when not? When is delay in presentment excused?
2. When is a bill dishonoured, (*a*) by non-acceptance, (*b*) by non-payment?
3. What is meant by notice of dishonour? When is it necessary, and when is it excused?
4. Explain the terms: holder in due course, recourse, damages on dishonour, payment for honour *supra* protest.
5. Bills are drawn as under—

    (*a*) Payable in three months provided the goods turn out satisfactory.

    (*b*) Payable one month after the drawer's marriage (the marriage actually takes place).

    (*c*) Payable as soon as the ship reaches the port of Liverpool (the ship duly arrives in port).

(*d*) Payable 10 days after a certain person's death.
(*e*) Payable out of a particular fund.
State, with reasons in each case, whether the above bills are valid or not.

6. How do the following affect the parties to a bill of exchange—
(*a*) Material alterations, (*b*) forgery, (*c*) non-delivery of bill, (*d*) loss of bill?

7. In what ways can a bill be discharged?

8. What are the legal liabilities respectively of (*a*) drawer, (*b*) acceptor, (*c*) endorser, (*d*) acceptor for honour?

9. Explain the method of procedure with regard to accommodation bills. What is the legal liability of an accommodation party?

10. Explain the meaning of fictitious payee. How does the absence of a date affect a bill? Does any mention of interest affect a bill?

D

1. Define a foreign bill. Name some of the principal differences between inland and foreign bills. Distinguish between "clean" and "documentary" bills.

2. On 15th March, B. Brown, of Melbourne, drew on A. Archer of London, at 60 d/s for £275, on account of 36 bales of Wool marked

shipped per s.s. *Retrop*, and attached the usual documents which were to be surrendered on acceptance of bill. Write out the bill in each of its three vias.

3. Explain the following terms: Usance, sola, letter of hypothecation, re-exchange, first of exchange, documents attached, protest, via.

4. A bill is drawn in Germany, accepted in France, and paid in England. To what parts of the bill would the different laws apply?

5. Are days of grace allowed on foreign bills?

6. Why are foreign bills often drawn in the home currency? When the amount of a foreign bill is not expressed in sterling, how is its value determined for the purpose of (*a*) stamp duty, and (*b*) payment?

7. Why are foreign bills drawn "after sight"? How does this affect the acceptance of a long bill? Give an example of a foreign bill drawn "after sight" and duly accepted.

8. "Foreign bills, unless drawn on a near country, are not sent for acceptance and return." Explain this, and the procedure with regard to such bills.

9. Are foreign bills liable to stamp duty? If so, what are the rates, and when must the stamp be affixed? What peculiarity is there with respect to bills drawn in the Channel Islands and the Isle of Man?

10. Give an example of a documentary bill. Explain the object of such bills, and the usual method of procedure with regard to them.

E

1. What is the statutory definition of a Promissory Note? For what purpose are such notes used, and in what respects do they (*a*) resemble, (*b*) differ from bills of exchange?

2. What stamp duty is required on promissory notes, and how is it denoted? How many parties are there to a note, and who are they?

3. How many kinds of notes are there? Give an example of each.

4. What is (*a*) a joint promissory note, and (*b*) a joint and several promissory note? Give an example of each. Why are the latter preferable?

5. When is a note payable on demand? Must a note be presented for payment? Can a valid note contain any reference to a collateral security?

6. What is the legal liability of the maker of a note? How far does the Bills of Exchange Act apply to promissory notes? To whom do the drawer and acceptor of a note correspond in a bill of exchange?
7. What are Bank Notes? For what amounts may they be issued, and by whom? Suppose a bank note be stolen, and is afterwards traced to a *bona fide* holder for value, what is his position?
8. What are Bank Drafts, and for what purpose are they used?
9. What is an IOU? Give an example. Is it legal evidence of debt?

F

1. What is the statutory definition of a cheque? Give a specimen.
2. Explain the following terms: Bearer cheque, order cheque, counterfoil, stale cheque, post-dated cheque, fictitious payee.
3. What is a crossed cheque? What is the object of the crossing? Give examples of (*a*) general crossings, (*b*) special crossings, and explain the following phrases sometimes added to crossings: " not negotiable," " A/c payee only."
4. What is meant by endorsing a cheque, and when is it (*a*) necessary, (*b*) not necessary? What is a " per pro." endorsement? Is it always accepted by bankers?
5. What endorsements are required on the following—
(*a*) Cheque payable to an illiterate person;
(*b*) Cheque payable to a deceased person who has (1) died intestate, (2) appointed an executor, (3) left his estate in the hands of trustees;
(*c*) Cheque payable to a married lady (1) in her maiden name, (2) in her husband's name;
(*d*) Cheque payable to a person whose name is misspelt;
(*e*) Cheque payable to the holder of an office;
(*f*) Cheque payable to a limited company (1) in active business, (2) in liquidation;
(*g*) Cheques payable to (1) Self, (2) — Cook, Esq., (3) Dr. B. Brown, (4) Messrs. Green, (5) Wages or Order, (6) Wages or Bearer, (7) Mr. Brownley, (8) Mrs. Finch, (9) The Misses Donnington, (10) The Aristocratic Tennis Club?
6. What legal and other circumstances revoke a banker's duty and authority to pay his customer's cheques?
7. What is a forged cheque? How far is a banker liable on it? Can alterations be made on a cheque?
8. " Bankers usually mark returned cheques." Write down some of the most usual markings and explain briefly what they signify.
9. Is a cheque legal tender? Give reasons for your answer. To whom do paid cheques belong, and what is the practice of bankers therewith?
10. What is the position of the respective parties thereto if a cheque is lost, (1) accidentally, (2) by miscarriage in the post?
11. What is a cheque book? Must a cheque always be drawn on the banker's printed form?

EXERCISE III

1. Enter the following in the Journal and Cash Book—
(1) R. Red handed us a P/N for £30 lent him.
(2) Accepted draft drawn on us at 3 m/d for £200 by Francis & Co. in favour of D. Devon.

(3) Gave Blue & Co. a bill at 2 m/d for £95.
(4) Bought goods, £150, from Sharp & Co., for 2 months' bill less 5 per cent discount.
(5) Handed Ridler & Son our acceptance at 3 m/d for £90.
(6) Received H. Hughes' acceptance for £120 from S. Straker.
(7) Discounted N. Notley's acceptance for £120, discount charged £1 10s.
(8) Received bill, dated 1st Jan., at 10 d/d for £120 from M. Monk.
(9) Drew on Green & Co. for £190, allowing them discount £10.
(10) Sent N. Norfolk sight draft for £125.
(11) Drew on J. Rowell at 60 d/s for £420. Endorsed first of exchange: "Pay to the order of M. Goodman," and forwarded it to the latter.
(12) Henry & Co.'s P/N for £40 duly taken up.
(13) Sold goods, £120, to B. Blunt, for 2 months' bill, less 2½ per cent discount.
(14) Sold goods for £150 to York & Son, and received in payment our own acceptance to Bull & Son for £150 due to-day.
(15) Our P/N to M. Martin for £120 redeemed to-day.
(16) Discounted G. Graham's acceptance for £150, due 3 months hence, with Sheffield, Sons & Co., bill brokers, discount rate 3¾ per cent.
(17) Sent Perrier Frères, Paris, 7 days' draft for £100.
(18) Accepted Dark & Co.'s draft for £285, being allowed discount £15.
(19) Provide solutions to the following—
(*a*) Sketch the form of a bill of exchange, inserting all details therein that will show it to be a negotiable instrument. Further, prepare the necessary accounts in support of the transactions from the viewpoints of the several parties thereto.
(*b*) A bill drawn on B for £100 was endorsed over to K, who subsequently presented it to B for payment but was unsuccessful. K thereupon noted the bill. Prepare the accounts required by the above transactions, as they affect (*a*) the drawer, and (*b*) K.
(*c*) B draws on F for £100. On maturity the bill is dishonoured. Show the book-keeping records on dishonour in B's books which would apply under three different circumstances.

2. Record the following in Journal and Cash Book—
(1) Blue & Black's acceptance for £200 renewed for 3 months, plus interest at 5 per cent and bill stamp.
(2) G. Gulliver's acceptance for £450, due this day, returned dishonoured. Noting charges, 5s.
(3) Wilson & Jones retire their acceptance for £420 by cheque £120, and a new bill at 1 m/d for the balance, interest at 5 per cent, together with the bill stamp, being paid in cash forthwith.
(4) L. Lambe's acceptance for £460, due this day, notified by our creditors (Charles & Son) as being dishonoured, noting charges paid by them, 5s. 6d. Withdrew same in exchange for our cheque.
(5) Retired our acceptance to Brockwell & Haigh for £630 by cheque £230, and a new bill at 2 m/d with interest at 4 per cent for the balance, being charged also with bill stamp.
(6) Our acceptance to Locke & Co. for £300 renewed for 4 months, plus interest at 3½ per cent and bill stamp.
(7) Our own acceptance to Dawson Bros. for £345 dishonoured (through omitting to instruct bankers to pay). Dawson Bros. send us debit note for £345 10s. 8d., including noting expenses. We settle same by cheque.
(8) Needham & Co.'s acceptance for £425, due this day, returned by bank dishonoured, with noting charges, 4s., and expenses 3s. 6d.
(9) Frame & Son's acceptance for £1,055, due this day, returned by bank dishonoured, with noting expenses £1 2s. 3d. Renewed same for 5 months

with interest at 6 per cent, noting expenses, interest, and bill stamp being paid in cash forthwith.

3. Write up in the books of both parties, the Ledger accounts (including Cash), for the following transactions in bills—

(*a*) On 1st Jan., S. Silverman accepts a 3 months' bill for £125, drawn on him by G. Goldstein for the latter's benefit. Goldstein discounts the bill at the rate of 3½ per cent, and at maturity forwards Silverman a cheque with which to meet the bill.

(*b*) On 1st March, P. Paterson and I. Ingram draw on one another at 3 months for £135 for their mutual convenience. They discount each others' bills at the rate of 4 per cent, and, at maturity, each meets his own acceptance.

(*c*) On 1st Feb., H. Hooker accepts a three months' bill for £115 drawn on him by E. Evans for their mutual accommodation. The bill is then discounted by Evans at the rate of 3¾ per cent, and half the proceeds handed to Hooker. At maturity Evans sends a cheque to Hooker, who then pays the bill.

4. Darlow & Walsh are the acceptors of a bill of four months date for £659 14s. 8d., due on the 24th January. A few days before it matured, Darlow & Walsh found they could not meet it and wrote to the drawers, Messrs. Earle & Creasey, requesting them to renew the bill for three months, adding interest at 5 per cent per annum. The drawers (Earle & Creasey) expressed their willingness to do so conditionally upon Darlow & Walsh lodging security with them for the amount of the renewed bill. Messrs. Darlow & Walsh offered as security five customers' bills, viz.—

(1) H. G. Bourner & Co.'s bill, £209 11s. 6d., due 14th Feb.
(2) Neville & Co.'s bill, £173 4s. 9d., due 26th Feb.
(3) James Hordarn & Co.'s bill, £89 14s. 8d., due 25th March.
(4) George Blakey & Co.'s bill, £82 16s. 0d., due 19th April.
(5) Smith, Wilks & Co.'s bill, £112 12s. 9d., due 26th April.

Each of the above five bills was discounted by Earle & Creasey's bankers, and Darlow & Walsh's renewed bill was paid into the bank one month after its acceptance. Bills 1, 2, and 4 were duly honoured. Bill 3 was dishonoured and returned to Earle & Creasey, who drew a cheque for its amount, plus 7s. 6d. noting expenses. Darlow & Walsh, on being called upon, made good this amount ten days later.

Bill 5 reached maturity the same day as Darlow & Walsh's renewed bill, and both were dishonoured.

(*a*) Draw the renewed bill, adding £1 8s. 11d. for stamp and other expenses, also 5 per cent interest for the term of the bill's currency.

(*b*) Show Earle & Creasey's Journal entries.

(*c*) Show Darlow & Walsh's Account as it appears in Earle & Creasey's Ledger. (*West Riding of Yorkshire.*)

5. (*a*) A bill for £105 is drawn at 6 months from the 1st October, by Smith on Rhodes, and accepted by the latter payable at Parr's Bank. What stamp duty does this bill require, and when is it due for payment?

(*b*) On the 11th December, Smith discounts the bill with Hirst, and receives £100 cash.

(*c*) The bill is dishonoured on maturity, but is taken up by Smith on the 7th April.

Show by means of the Journal the necessary entries to record the above transactions—(*a*), (*b*), and (*c*)—in Smith's books. (*National Union of Teachers.*)

6. Jones, for the mutual and temporary accommodation of himself and Brown, draws upon the latter a bill of exchange at 3 months for £600, dated

1st Jan. Jones discounts this bill immediately at his bankers, the rate of discount being 5 per cent, and hands half the proceeds to Brown.

Brown, for a similar purpose, and at the same time, draws a bill at 3 months on Jones for £300. This he discounts at his bankers at 5 per cent, and hands half the proceeds to Jones. Brown becomes a bankrupt on 31st March, and a first and final dividend of 5s. in the £ is paid on his estate on 30th June.

Write up Brown's account in Jones' book. Assume, in each case, that one half of the charge for discounting the bill is chargeable to Brown and one half to Jones. *(London Chamber of Commerce.)*

7. You are preparing the Balance Sheet of a Limited Company of which you are the chief accountant, and find that there are bills under discount amounting to £10,750. On going through the books you discover facts which point to the probability that £1,000 worth of these bills will be dishonoured on maturity, but that there is a reasonable chance of eventually receiving 10s. in the £ on the £1,000. How would you deal with these bills under discount, and how should they appear in the company's published accounts? *(London Chamber of Commerce.)*

8. On 1st January, A owes B £6,000, for which B receives two acceptances from A, one for £2,000 payable in 2 months, the other for £4,000 payable in 4 months, in each case from 1st January. B duly discounts both these acceptances with his bankers on 3rd January at 4 per cent.

Before the first bill becomes due, A requests B to assist him in taking it up by providing him with £1,000 in cash, and drawing a third bill on A for that amount at 3 months from the due date of the first bill, plus interest at 5 per cent per annum; B agrees to this proposal and advances the money, discounting the bill with his bankers at 4 per cent.

A week before the second bill for £4,000 falls due A again asks B to assist him to the extent of £2,500. B, however, is not in a position to do this, and, as his bankers will not discount any more of A's acceptances, he arranges with A to draw on him (B) two bills for £1,131 16s. 8d. and £1,408 3s. 4d. at 2 months and 3 months respectively from the due date of the £4,000 bill. B duly accepts these two bills and remits them to A, who discounts them with his bankers at 4 per cent, and, assisted by the proceeds, duly meets the £4,000 bill. B also meets his two bills on maturity. On 7th June A becomes bankrupt, leaving his third bill unpaid. Make the necessary entries in B's books to give effect to the above transactions. *(London Chamber of Commerce.)*

9. From the following particulars compile detailed Bills Receivable and Payable Books, and post same to proper Ledger accounts—

(N.B. All our acceptances were made payable at our bankers, Royal Bank.)

Mar. 2. Drew on Green & Golding at 1 m/d for £152, allowing them discount £8. Bill No. 129.

„ 3. Received Green & Golding's acceptance, payable at the Safe Bank, City.

„ 3. Accepted Philips & Son's draft of the 2nd inst., at 2 m/d in favour of Ogden & Co., £237 16s. 4d. Bill No. 95.

„ 9. Received of Ellis & Co., J. Thomson's acceptance to them for £85 16s. 10d., dated 9th Jan., at 2 m/d, payable at Union Bank, Holborn.

„ 12. Gave Lonsdale & Sons our acceptance, dated 11th inst., at 10 d/d for £125.

„ 12. Received Pavey & Lord's acceptance of our draft of yesterday, at 3 m/d for £120 12s. 6d., payable at Bank of England, Liverpool.

Mar. 16. Allott, Jones & Co. forward me B. Bunker's acceptance to them for £185, payable at Midland Bank. Bill drawn 15th Feb., at 60 d/s, acceptance being dated 28th Feb.

„ 21. Received Sowerby & Wade's draft on us of the 19th inst., at 1 m/d, in favour of Lewry & Son for £166 1s. 8d., discount allowed, £8 14s. 10d. Returned same duly accepted.

„ 22. Drew on Bayes & Kerry at 4 m/d, for £214 9s. 3d., allowing discount, £11 5s. 9d.

„ 23. Received Bayes & Kerry's acceptance, payable at Parr's Bank, City.

„ 27. Received Green & Noel's draft on us of yesterday's date for £299 15s., at 3 m/d, with interest at 5 per cent. Returned same duly accepted.

„ 30. Returned, duly accepted, T. Nicholson's draft on us, dated 29th inst. at 4 m/d, for £66 13s. 8d. in favour of Gardner & Isbister.

„ 31. B. Bearon forwards us L. Levar's acceptance to H. Moore for £116 2s. 6d. Bill dated 29th Jan. at 2 m/d, and payable at Joint Stock Bank, Leeds.

„ „ Accepted G. Graham's draft on us, dated 21st Mar. at 90 d/s, for £134 13s. 3d., discount allowed £7 1s. 9d.

Bill No. 130 was duly met. No. 132 was discounted. No. 134 was dishonoured. No. 131 was endorsed over to Mandrakes, Ltd., on the 11th of June. Acceptance No. 96 was duly honoured, and No. 95 was renewed on 4th May.

10. What is meant by "renewing" a bill? Give, in both parties' books in each case, the Journal entries for the following—

(*a*) Welt and Dray renew a bill for £126 15s. 8d., for their customer, F. Frost, for 2½ months with interest at 3¾ per cent, plus bill stamp.

(*b*) S. Storm, a creditor of Jenkins & Co., renews a bill for £226 14s. 11d. for 3½ months, with interest at 4¾ per cent, plus bill stamp.

11. T. Talbot receives his customer's acceptance for £120. State the different ways in which he can deal with this bill, and give the Journal and Cash Book entries for each way. Assuming the bill to be dishonoured in each case, give the necessary Journal and Cash Book entries.

12. Give a written explanation of a method of procedure in dealing with bills of exchange transactions which, in your judgment, would ensure a clear grasp of the facts. Support your answer by solutions—with notes—to the following problems.

(1) S, who discounted a bill he had drawn on J, has been notified by his banker that J failed to meet it on presentment for payment.

(2) M and B draw on each other for £100 on 1st March. Each discounts the other's bill and, at maturity, each party honours his acceptance. The bankers charged 5 per cent for discounting.

(3) L drew on M; endorsed over to N; but on the advice of N that M was unable to pay, L met the bill. Show the records in (*a*) L's books, (*b*) M's, and (*c*) N's books respectively.

REVISION EXERCISE III

1. Give a brief outline of the general characteristics of Account-keeping, with special reference to such classes of business with which you may be acquainted. (*London Chamber of Commerce.*)

2. In order to guard against irregularities in the matter of cash, what

special rule would you lay down as to dealing with Receipts and Payments in a City House, where the transactions were both large and numerous? Sketch out a form of Cash Book where there would not only be a saving of labour, but where there would be a minimum of risk from improper dealing with cash by an employee. Sketch also a form of Petty Cash Book, and state what class of expenditure you would have entered therein, and in what way, and to what extent, such Petty Cash Book would be subsidiary to the General Cash Book. (*London Chamber of Commerce.*)

3. Referring to the preceding question, and having prepared the forms asked for, enter therein the following Receipts and Payments—

			£	s.	d.	£	s.	d.
Jan.	1.	To John Smith, monthly A/c, Dis. 59s.	147	10	–			
		By William Jones, Cheque, Dis. 88s.				215	12	–
		„ Petty Cashier, Cheque				20	–	–
„	2.	To F. Page, Balance of A/c	73	6	8			
		By Bills Payable Frost's Dft.				146	7	8
		„ Office Wages, 1 month				52	6	8
		„ Carriage, Pickford's A/c				3	5	–
		„ Postage and Bill Stamps				1	17	6
		„ Quarter Year's Gas A/c				2	14	9
		„ Office Cleaning and Caretaker				1	17	8
		„ City Bank, paid in				220	16	8

(*London Chamber of Commerce.*)

4. What is a Capital Account, and what does it embrace? Explain the difference between Gross and Net Profit, and between a Trading Account (or Working Account) and a Profit and Loss Account. (*London Chamber of Commerce.*)

5. Messrs. Dodger & Co., Colliery Proprietors, Burnley, sold to Messrs. Ibbetson & Co., of London, in wagons at Burnley, 120 tons of best House Coal, at 8s. 9d. per ton, with a charge of 9d. per ton for wagon hire. The terms were cash, but Ibbetson, not finding it convenient to pay cash down, agreed to accept Dodger's draft at 3 months, dated 1st March, for the amount of invoice, plus 2 per cent commission and 5 per cent discount. The draft was duly accepted; but, before its maturity, Ibbetson, not having sold the coal, arranged to have the draft withdrawn, to pay in cash £20 on the 1st June, and to accept a draft at 2 months for the balance, plus commission and discount at the rate charges on the former draft. This was duly carried out, the £20 was paid, and the fresh draft met at its maturity on the 4th August.

Prepare the Day Book, Journal, and Cash Book entries, giving effect to the transaction, and post to a Ledger Account as representing Messrs. Dodger & Co. (*London Chamber of Commerce.*)

6. A. F. Walters and J. B. Smith are in partnership as pipe manufacturers; they also rent and work a retail shop. Profits or losses are shared as follows: A. F. Walters two-thirds, J. B. Smith, one-third. The shop manager sends in weekly returns of all transactions, and these returns are duly incorporated in the books of the head office. You are required to prepare a Trading and Profit and Loss Account for the year ended 28th February, and a Balance Sheet as on that date; a separate Trading Account is also required showing the working results of the shop.

The following is a list of the Ledger Balances as extracted by the head clerk of the firm as on 28th February—

	£		£
A. F. Walters, Capital A/c	6,200	Office Expenses, Postage, etc. (factory)	395
J. B. Smith, Capital A/c	3,500	Law Expenses and Audit Fee (factory)	41
Plant and Machinery	3,280	Bad Debts written off (factory)	8
Fixtures and Fittings (factory)	620	Discount A/c, Credit Balance (factory)	282
Purchases	11,780	Reserve for Bad Debts as on 1st March	74
Sales (factory)	19,353	Sundry Debtors	2,520
,, (shop)	7,538	Furniture, Fixtures, and Fittings (shop)	980
Manufacturing Wages	6,433	Bills Receivable	2,000
,, Expenses	891	Bills Payable	78
Rent, Rates, Taxes, Light and Insurance (factory)	360	Salaries of Manager and Assistant at shop	266
Rent, Rates, Taxes, Light and Insurance (shop)	423	A. F. Walters (Drawings A/c)	1,212
Stock on hand, 1st March (factory)	3,828	J. B. Smith ,,	606
,, ,, ,, (shop)	747	Cash at Bank	2,512
Cash Purchases (shop)	62	,, in hand (factory)	7
Sundry Creditors	2,428	,, ,, (shop)	50
Travellers' Commission (factory)	152		
Office Salaries (factory)	280		

Before preparing the annual accounts the following adjustments are necessary—

Interest is to be credited upon the Capital Accounts at 5 per cent.

Reserves for: Rent, Rates, etc., Account (factory) for rent accrued due 28th Feb., £78; Rent, Rates, etc., Account (shop) two months' rent due to 28th Feb. (the annual rent of the shop is £360); Audit fee, £36.

The Manager of the shop is entitled, under his agreement, to a commission of 2 per cent on the gross profit realized by the shop.

Plant and machinery are to be depreciated at 10 per cent. Fixtures and fittings are to be depreciated at 5 per cent.

Provision for Bad and Doubtful Debts is to be made at 2½ per cent.

The stock on hand as on 28th Feb. was valued as follows—

Factory	£3,105
Shop	470

The goods supplied by the factory to the shop during the year were priced out at £4,199 cost price. (*London Chamber of Commerce.*)

CHAPTER IV

ACCOUNTS CURRENT, AVERAGE DUE DATE

Definition. An account current is a statement in Dr. and Cr. form of the various transactions that have taken place between two merchants, or between a principal and his agent. The transactions are set out in chronological order, interest being charged and allowed thereon at an agreed rate or rates per cent per annum.

The Party Rendering the Account. Strictly speaking, the account current is rendered by the party last mentioned in the heading. Thus, "*B. Bennett in Account Current with G. Green*" signifies that G. Green is rendering the account to B. Bennett. The account current is really a copy of B. Bennett's account in G. Green's Ledger. The transactions are, therefore, viewed solely from Green's point of view. Green *debits* Bennett with goods, cash, and bills, sent or paid to him or on his account, and *credits* Bennett with goods, cash, and bills received from him or on his account.

Calculation of Days. In reckoning the number of days for interest, it is not usual to make them both inclusive. Only one end day or "extreme" is counted, viz. the day to which the account is made up, the date of the transaction being omitted. When dealing with foreign accounts current, it must be remembered that many countries, especially on the Continent, reckon 360 days to a year. Some countries also reckon 30 days to *each* month, while others reckon the exact number of days as per the calendar. When items are debited or credited before the due date thereof, interest begins to run only from the *due date* of the transactions.

In example A1 (page 137) the days are reckoned after the following manner—

1st Dr. item		*2nd Dr. item*		*1st Cr. item*	
Jan.	31 days	Mar.	3 days	Feb.	18 days
Feb.	28 "	April	30 "	Mar.	31 "
Mar.	31 "	May	31 "	April	30 "
April	30 "	June	30 "	May	31 "
May	31 "		94	June	30 "
June	30 "				140
	181				

It is necessary to warn students against a very common mistake when dealing with accounts current that contain an initial balance. If the opening date is the date of a transaction, it will *not* be counted; but if it is the date of a previous balance, it *will* be counted. Thus,

in "*1st Jan., To Goods,*" 1st Jan will not be counted; but in "*1st Jan., To Balance,*" 1st Jan. will be counted, because it was really the balance due on 31st Dec. For this reason, therefore, it is advisable to bring down the balance of an account current as on the last day of the previous account. The same remark applies to the bringing down of Ledger balances.

Table of Days. The following table will be of great service in ascertaining quickly, without the slow and laborious process of actual calculation shown on page 130, the exact number of days in any given period. The student should, however, accustom himself also to that method, as it is the only practicable one in the examination room.

TABLE

Showing the Number of Days in any Given Period of the Year

Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1	32	60	91	121	152	182	213	244	274	305	335
2	33	61	92	122	153	183	214	245	275	306	336
3	34	62	93	123	154	184	215	246	276	307	337
4	35	63	94	124	155	185	216	247	277	308	338
5	36	64	95	125	156	186	217	248	278	309	339
6	37	65	96	126	157	187	218	249	279	310	340
7	38	66	97	127	158	188	219	250	280	311	341
8	39	67	98	128	159	189	220	251	281	312	342
9	40	68	99	129	160	190	221	252	282	313	343
10	41	69	100	130	161	191	222	253	283	314	344
11	42	70	101	131	162	192	223	254	284	315	345
12	43	71	102	132	163	193	224	255	285	316	346
13	44	72	103	133	164	194	225	256	286	317	347
14	45	73	104	134	165	195	226	257	287	318	348
15	46	74	105	135	166	196	227	258	288	319	349
16	47	75	106	136	167	197	228	259	289	320	350
17	48	76	107	137	168	198	229	260	290	321	351
18	49	77	108	138	169	199	230	261	291	322	352
19	50	78	109	139	170	200	231	262	292	323	353
20	51	79	110	140	171	201	232	263	293	324	354
21	52	80	111	141	172	202	233	264	294	325	355
22	53	81	112	142	173	203	234	265	295	326	356
23	54	82	113	143	174	204	235	266	296	327	357
24	55	83	114	144	175	205	236	267	297	328	358
25	56	84	115	145	176	206	237	268	298	329	359
26	57	85	116	146	177	207	238	269	299	330	360
27	58	86	117	147	178	208	239	270	300	331	361
28	59	87	118	148	179	209	240	271	301	332	362
29	—	88	119	149	180	210	241	272	302	333	363
30	—	89	120	150	181	211	242	273	303	334	364
31	—	90	—	151	—	212	243	—	304	—	365

To illustrate the use of the table, let it be supposed that it is required (as in Example A1, *post*), to ascertain the number of days from 28th March to 30th June. We look for 30 in the first column, and on the same line, under *June*, we find the number 181. We next look for 28 in the first column, and on the same line, under *March*, we find the number 87. Subtracting the two numbers, we get the answer, namely, 94 days. In the case of leap year, one day more must be added for February. The above table is also useful in cases of average due date, as explained later.

Different Ways of Reckoning Interest. There are in vogue various ways of reckoning interest, that is, from the point of view of time, as follows—

1. *Forward*, i.e. from the due date of each transaction to the end of the period of the account current.

2. *Backward*, i.e. from the due date of each transaction to the *époque* or beginning of the period of the account current.

3. *By Steps*, i.e. on the varying balance of the account current from the date of one transaction to the date of the next.

Methods of Calculating Interest. From the point of view of actual calculation, there are different ways of proceeding to find the interest—

(*a*) *By Tables*, which show the exact amount in sterling on each item for the required number of days. The interest columns on each side of the account are then added, and the totals extended into the principal columns. Usually, however, the interest columns are balanced, and only the balance is brought into the account itself.

(*b*) *By Products*, that is, figures obtained by multiplying the number of pounds in each amount sterling by the number of days it has to run for interest. Ten shillings and over are counted as a full pound, smaller sums being ignored. The product columns are then balanced, and the interest on the balance of products extended into the capital columns. The interest is found by means of the following formula—

$$\text{Interest} = \frac{\text{Balance of Products} \times \text{Rate}}{365 \text{ (or } 360) \times 100}$$

In practice, however, it is often found more convenient to double the rate per cent, and divide the result by 73,000 (or 72,000, as the case may be).

(*c*) *By Interest Numbers*. This is merely a variation of the product method. Each product is divided by 100, and the quotient, called interest numbers, is entered in its special column. The number columns are then balanced, and interest on the balance of numbers found by the above formula, except for the division by 100, which has already been done. In the case of long accounts,

however, interest numbers are not very reliable, owing to the constant approximation of the quotient to the nearest integer, whenever the division results in a remainder larger than one-half. This method is sometimes called the English method, though it is largely used on the Continent.

(*d*) *By the Third, Tenth and Tenth Rule.* This rule is based on the formula—

$$\frac{1}{73{,}000} = \frac{1 + \frac{1}{3} + (\frac{1}{10} \times \frac{1}{3}) + (\frac{1}{10} \times \frac{1}{10} \times \frac{1}{3})}{100{,}000}$$

Briefly stated the method is—

(1) Multiply principal by days, and product by twice rate.

(2) Divide second product by 100,000.

(3) To this add one-third of it, then one-tenth of this third, and then one-tenth of this latter figure.

(4) From result deduct one ten-thousandth, and the final figure is the required interest.

As an example of this working, let us find the simple interest for 120 days on £5,672 at $5\frac{1}{2}$ per cent per annum.

5,672 × 120	=	680,640
680,640 × 11	=	7,487,040
7,487,040 ÷ 100,000	=	74·87040
Add $\frac{1}{3}$	=	24·95680
Add $\frac{1}{10}$	=	2·49568
Add $\frac{1}{10}$	=	·24956
		102·57244
Deduct $\frac{1}{10000}$	=	·01025
		102·56219

Required interest = £102 11s. 3d.

Interest Tables. In examination work, the student should ascertain the interest by means of products, as in the examples shown; but for general practice, he should work the exercises by each of the methods illustrated in the worked examples, in order to master them. When desiring to calculate the interest on each item in sterling, the table on pages 134 and 135 will be found very useful.

Varying Rates of Interest. In some cases, different rates of interest are charged in the same account current. The rates may be changed from time to time according to the state of the money market; or it may be that there is one rate for goods, and another for cash. Sometimes, the rate of interest on the debits differs from the rate of interest on the credits. In such cases, the products must be multiplied by their respective rates of interest before they are balanced. An illustration of this is furnished in Example A5.

Balance of Capital or Principal. When accounts current are worked by the *époque* method, the balance of the two principal money columns must be ascertained, and interest charged, or allowed, on it for the period covered by the account. The great advantage of the *époque* method is that it avoids *red ink* interest. The disadvantage of it, however, from the students' point of view, is

TABLE

SHOWING THE INTEREST ON £1 AT 5 PER CENT. FOR ANY PERIOD OF DAYS IN A YEAR

Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest.
1	·000137	31	·004246	61	·008356	91	·012465	121	·016575	151	·020685
2	·000274	32	·004383	62	·008493	92	·012602	122	·016712	152	·020822
3	·000411	33	·004520	63	·008630	93	·012739	123	·016849	153	·020959
4	·000548	34	·004657	64	·008767	94	·012876	124	·016986	154	·021095
5	·000685	35	·004794	65	·008904	95	·013013	125	·017123	155	·021232
6	·000822	36	·004931	66	·009041	96	·013150	126	·017260	156	·021369
7	·000959	37	·005068	67	·009178	97	·013287	127	·017397	157	·021506
8	·001095	38	·005205	68	·009315	98	·013424	128	·017534	158	·021643
9	·001232	39	·005342	69	·009452	99	·013561	129	·017671	159	·021780
10	·001369	40	·005479	70	·009589	100	·013698	130	·017808	160	·021917
11	·001506	41	·005616	71	·009726	101	·013835	131	·017945	161	·022054
12	·001643	42	·005753	72	·009863	102	·013972	132	·018082	162	·022191
13	·001780	43	·005890	73	·010000	103	·014109	133	·018219	163	·022328
14	·001917	44	·006027	74	·010137	104	·014246	134	·018356	164	·022465
15	·002054	45	·006164	75	·010274	105	·014383	135	·018493	165	·022602
16	·002191	46	·006301	76	·010411	106	·014520	136	·018630	166	·022739
17	·002328	47	·006438	77	·010548	107	·014657	137	·018767	167	·022876
18	·002465	48	·006575	78	·010685	108	·014794	138	·018904	168	·023013
19	·002602	49	·006712	79	·010822	109	·014931	139	·019041	169	·023150
20	·002739	50	·006849	80	·010959	110	·015068	140	·019178	170	·023287
21	·002876	51	·006986	81	·011095	111	·015205	141	·019315	171	·023424
22	·003013	52	·007123	82	·011232	112	·015342	142	·019452	172	·023561
23	·003150	53	·007260	83	·011369	113	·015479	143	·019589	173	·023698
24	·003287	54	·007397	84	·011506	114	·015616	144	·019726	174	·023835
25	·003424	55	·007534	85	·011643	115	·015753	145	·019863	175	·023972
26	·003561	56	·007671	86	·011780	116	·015890	146	·020000	176	·024109
27	·003698	57	·007808	87	·011917	117	·016027	147	·020137	177	·024246
28	·003835	58	·007945	88	·012054	118	·016164	148	·020274	178	·024383
29	·003972	59	·008082	89	·012191	119	·016301	149	·020411	179	·024520
30	·004109	60	·008219	90	·012328	120	·016438	150	·020548	180	·024657

TABLE

SHOWING THE INTEREST ON £1 AT 5 PER CENT. FOR ANY PERIOD OF DAYS IN A YEAR (*continued*)

Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest
181	·024794	212	·029041	243	·033287	274	·037534	305	·041780	336	·046027
182	·024931	213	·029178	244	·033424	275	·037671	306	·041917	337	·046164
183	·025068	214	·029315	245	·033561	276	·037808	307	·042054	338	·046301
184	·025205	215	·029452	246	·033698	277	·037945	308	·042191	339	·046438
185	·025342	216	·029589	247	·033835	278	·038082	309	·042328	340	·046575
186	·025479	217	·029726	248	·033972	279	·038219	310	·042465	341	·046712
187	·025616	218	·029863	249	·034109	280	·038356	311	·042602	342	·046849
188	·025753	219	·030000	250	·034246	281	·038493	312	·042739	343	·046986
189	·025890	220	·030137	251	·034383	282	·038630	313	·042876	344	·047123
190	·026027	221	·030274	252	·034520	283	·038767	314	·043013	345	·047260
191	·026164	222	·030411	253	·034657	284	·038904	315	·043150	346	·047397
192	·026301	223	·030548	254	·034794	285	·039041	316	·043287	347	·047534
193	·026438	224	·030685	255	·034931	286	·039178	317	·043424	348	·047671
194	·026575	225	·030822	256	·035068	287	·039315	318	·043561	349	·047808
195	·026712	226	·030959	257	·035205	288	·039452	319	·043698	350	·047945
196	·026849	227	·031095	258	·035342	289	·039589	320	·043835	351	·048082
197	·026986	228	·031232	259	·035479	290	·039726	321	·043972	352	·048219
198	·027123	229	·031369	260	·035616	291	·039863	322	·044109	353	·048356
199	·027260	230	·031506	261	·035753	292	·040000	323	·044246	354	·048493
200	·027397	231	·031643	262	·035890	293	·040137	324	·044383	355	·048630
201	·027534	232	·031780	263	·036027	294	·040274	325	·044520	356	·048767
202	·027671	233	·031917	264	·036164	295	·040411	326	·044657	357	·048904
203	·027808	234	·032054	265	·036301	296	·040548	327	·044794	358	·049041
204	·027945	235	·032191	266	·036438	297	·040685	328	·044931	359	·049178
205	·028082	236	·032328	267	·036575	298	·040822	329	·045068	360	·049315
206	·028219	237	·032465	268	·036712	299	·040959	330	·045205	361	·049452
207	·028356	238	·032602	269	·036849	300	·041095	331	·045342	362	·049589
208	·028493	239	·032739	270	·036986	301	·041232	332	·045479	363	·049726
209	·028630	240	·032876	271	·037123	302	·041369	333	·045616	364	·049863
210	·028767	241	·033013	272	·037260	303	·041506	334	·045753	365	·050000
211	·028904	242	·033150	273	·037397	304	·041643	335	·045890	—	—

that they are so liable to forget to include interest on the balance of the money columns. If the balance of capital is a debit balance the interest must be credited, and vice versa. The student should, in this respect, carefully study Example A3.

Side on which Interest Falls. When the days are reckoned by the forward method, that is, from the due date of the transaction up to the end of the period of the account, the interest falls on the *opposite* side to the balance of products; but when reckoned by the backward or *époque* method, the interest should be placed on the *same* side as the balance of products is entered.

Red Ink Interest. When an account current is balanced, and contains items which are not due at the date of such balancing, there arises a case of what is called *red ink* interest. Red ink interest denotes interest allowed on items debited in the account before their due dates, also interest charged on items credited in the account before their due dates. Red ink interest runs from the date of closing the account up to the due date of the items prematurely included. The products are worked out in the usual way but are inserted in *red* ink. They must also be entered in ordinary ink on the opposite side, in order to allow for, or charge, them as the case may be. If there are red ink figures on both sides of the account, then only the balance needs to be transferred to the opposite side, debit or credit according to circumstances. When adding up and balancing the product columns the red ink figures are ignored. Under the *époque* method red ink interest will seldom occur. Such a case could only arise, if there were introduced into the account current an old item having a due date anterior to the *époque*.

Leap Year. In the case of leap year, that is, every year whose two end numbers are divisible by four, except the year of the century, the number of days in February must be reckoned as 29 instead of 28.

Example A. From the following particulars make up an account current to be rendered by G. Green to B. Bennett as at 30th June, reckoning interest at 5 per cent per annum—

19..		
Jan.	1.	Balance owing by Bennett to Green, £127 16s. 6d.
Feb.	10.	Cash received from Bennett, £60.
,,	23.	Goods bought of Bennett, £239 4s. 11d.
,,	25.	Green accepted Bennett's draft at 1 m/d for £100.
Mar.	10.	Cash paid to Bennett, £75.
April	12.	Goods sold to Bennett, due 12th May, £195 10s. 6d.
May	19.	Goods bought of Bennett, £113 9s. 8d.
June	8.	Goods bought of Bennett, £56 14s. 7d.
,,	15.	Cash paid to Bennett, £50.
,,	20.	Goods sold to Bennett, £248 3s. 10d.
,,	25.	Cash received from Bennett, £100.

Example A1. Interest calculated on each item, from due date of each transaction to end of period of account.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN *Cr.*

Date	Particulars	Days	Interest			Amount			Date	Particulars	Days	Interest			Amount		
19—			£	s.	d.	£	s.	d.	19—			£	s.	d.	£	s.	d.
Jan. 1	To Balance .	181	3	3	6	127	16	6	Feb. 10	By Cash .	140	1	3	–	60	–	–
Feb. 25	„ Bill due 28 Mar.	94	1	5	9	100	–	–	„ 23	„ Goods .	127	4	3	2	239	4	11
Mar. 10	„ Cash .	112	1	3	–	75	–	–	May 19	„ Do. .	42		13	–	113	9	8
Apr. 12	„ Goods due 12 May	49	1	6	4	195	10	6	June 8	„ Do. .	22		3	5	56	14	7
June 15	„ Cash . .	15		2	–	50	–	–	„ 25	„ Cash . .	5		1	5	100	–	–
„ 20	„ Goods .	10		6	10	248	3	10	„ 30	„ Interest .		—	—	—	6	4	–
„ 30	„ Interest .		—	—	—	7	7	5	„ „	„ Balance c/d .					228	5	1
						£803	18	3							£803	18	3
June 30	To Balance b/d .					228	5	1									
	E. & O.E.									London, 30th June, 19..							
										G. Green.							

Example A2. Same as A1, but interest calculated by means of products.[1]

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN *Cr.*

Date	Particulars	Amount			Days	Products	Date	Particulars	Amount			Days	Products
19—		£	s.	d.			19—		£	s.	d.		
Jan. 1	To Balance .	127	16	6	181	23,168	Feb. 10	By Cash . .	60	–	–	140	8,400
Feb. 25	„ Bill due 28 Mar. .	100	–	–	94	9,400	„ 23	„ Goods . .	239	4	11	127	30,353
Mar. 10	„ Cash . .	75	–	–	112	8,400	May 19	„ Do. . .	113	9	8	42	4,746
Apr. 12	„ Goods due 12 May .	195	10	6	49	9,604	June 8	„ Do. . .	56	14	7	22	1,254
June 15	„ Cash . .	50	–	–	15	750	„ 25	„ Cash . .	100	–	–	5	500
„ 20	„ Goods . .	248	3	10	10	2,480	„ 30	„ Balance of Products					8,549
„ 30	„ Interest on Balance of Products: [2] $\frac{8,549 \times 10}{73,000}$	1	3	5			„ „	„ Balance c/d	228	5	1		
		797	14	3		53,802			797	14	3		53,802
June 30	To Balance b/d	228	5	1									

[1] This method is recommended to students as the best for examinations.
[2] The net result of all the interest calculations is thus equal to 1 day's interest on £8,549 at 5 per cent per annum.

Example A3. Same as A2, but interest calculated from beginning of period of account, or *époque*, to due date of each transaction.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN *Cr.*

Date	Particulars	Capital or Principal			Days	Products	Date	Particulars	Capital or Principal			Days	Products
19—		£	s.	d.		31 Dec.	19—		£	s.	d.		
Jan. 1	To Balance .	127	16	6	—	*époque*	Feb. 10	By Cash . .	60	–	–	41	2,460
Feb. 25	„ Bill due 28 Mar. .	100	–	–	87	8,700	„ 23	„ Goods . .	239	4	11	54	12,906
Mar. 10	„ Cash . .	75	–	–	69	5,175	May 19	„ Do. . .	113	9	8	139	15,707
Apr. 12	„ Goods due 12 May .	195	10	6	132	25,872	June 8	„ Do. . .	56	14	7	159	9,063
June 15	„ Cash . .	50	–	–	166	8,300	„ 25	„ Cash . .	100	–	–	176	17,600
„ 20	„ Goods . .	248	8	10	171	42,408	„ 30	„ Balance of Principal: £228 (£797 – £569) .				181	41,268
„ 30	„ Balance of Products .					8,549	„ „	„ Balance c/d	228	5	1		
„ „	„ Interest on Balance of Products: $\frac{8{,}549 \times 10}{73{,}000}$	1	3	5									
		£797	14	3		99,004			£797	14	3		99,004
June 30	To Balance b/d	228	5	1									

Example A4. Same as A2, but interest calculated by means of interest numbers.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN *Cr.*

Date	Particulars	Amount			Days	Interest Nos.	Date	Particulars	Amount			Days	Interest Nos.
19—		£	s.	d.			19—		£	s.	d.		
Jan. 1	To Balance .	127	16	6	181	232	Feb. 10	By Cash . .	60	–	–	140	84
Feb. 25	„ Bill due 28 Mar. .	100	–	–	94	94	„ 23	„ Goods . .	239	4	11	127	304
Mar. 10	„ Cash . .	75	–	–	112	84	May 19	„ Do . .	113	9	8	42	47
Apr. 12	„ Goods due 12 May .	195	10	6	49	96	June 8	„ Do. . .	56	14	7	22	13
June 15	„ Cash . .	50	–	–	15	8	„ 25	„ Cash . .	100	–	–	5	5
„ 20	„ Goods . .	248	8	10	10	25	„ 30	„ Balance of Interest Nos. . .					86
„ 30	„ Interest on Balance of Nos. $\frac{86 \times 10}{730}$	1	3	5			„ „	„ Balance c/d	228	5	1		
		£797	14	3		539			£797	14	3		539
June 30	To Balance b/d	228	5	1									

Example A5. Interest calculated by means of products, but 3½ per cent charged on debit items, and 4½ per cent allowed on credit items.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN *Cr.*

Date	Particulars	Amount £	s.	d.	Days	Products	Date	Particulars	Amount £	s.	d.	Days	Products
19—		£	s.	d.			19—		£	s.	d.		
Jan. 1	To Balance .	127	16	6	181	23,168	Feb. 10	By Cash . .	60	–	–	140	8,400
Feb. 25	" Bill due 28 Mar.	100	–	–	94	9,400	" 23	" Goods .	239	4	11	127	30,353
Mar. 10	" Cash . .	75	–	–	112	8,400	May 19	" Do. . .	113	9	8	42	4,746
Apr. 12	" Goods due 12 May	195	10	6	49	9,604	June 8	" Do. . .	56	14	7	22	1,254
June 15	" Cash . .	50	–	–	15	750	" 25	" Cash . .	100	–	–	5	500
" 20	" Goods .	248	3	10	10	2,480							
						53,802							45,253
						7							9
						376,614							407,277
" 30	To Balance of Products					30,663	" 30	By Interest on Balance of Products: 30,663 / 73,000		8	5		
							" "	" Balance c/d .	226	13	3		
		£796	10	10		407,277			£796	10	10		407,277
June 30	To Balance b/d .	226	13	3									

Example B. R. Reed has the following transactions with W. White—

19..
Jan. 1. Sold goods to White, £140.
Feb. 15. Remittance received from White, £50.
Mar. 2. Bought goods from White, £345.
" 3. Accepted White's draft at 1 m/d for £100.
April 11. Cash paid to White, £100.
" 30. Goods sold to White, £116, due end of May.
May 11. Bought goods from White, £85.
" 31. Sold goods to White, £125.
June 15. Bought goods from White, £145, due end of July.

Make out an account current to be rendered by R. Reed at 30th June, bringing interest into account at the rate of 5 per cent per annum.

Example B1. Interest calculated on each item from due date of each transaction to end of period of account, similar to A1, but introducing *Red Ink Interest* (shown in heavy type).

Dr. W. WHITE IN ACCOUNT CURRENT WITH R. REED *Cr.*

Date	Particulars	Days	Interest £	s.	d.	Amount £	s.	d.	Date	Particulars	Days	Interest £	s.	d.	Amount £	s.	d.
19—									19—								
Jan. 1	To Goods	180	3	9	–	140	–	–	Feb. 15	By Cash	135		18	6	50	–	–
Mar. 3	„ Bill due 6 Apr.	85	1	3	4	100	–	–	Mar. 2	„ Goods	120	5	13	5	345	–	–
Apr. 11	„ Cash	80	1	1	11	100	–	–	May 11	„ Do.	50		11	8	85	–	–
„ 30	„ Goods due 31 May	30		9	6	116	–	–	June 15	„ Do. due 31 July	31		12	4	145	–	–
May 30	„ Goods	30		10	3	125	–	–	„ 30	„ Interest					7	3	7
June 30	„ Red Ink Interest as per contra			12	4												
„ „	„ Interest					7	6	4									
„ „	„ Balance c/d					43	17	3									
						£632	3	7							£632	3	7
									June 30	By Balance b/d					43	17	3

NOTE. The item on the 15th June ought not to be settled till the 31st July. It is, however, being settled on the 30th June, that is, 31 days before the proper time. Interest on the money for 31 days must, therefore, be debited to the account.

Example B2. Same as B1, but interest (including red ink interest) calculated by means of products.[1]

Dr. W. WHITE IN ACCOUNT CURRENT WITH R. REED *Cr.*

Date	Particulars	Amount £	s.	d.	Days	Products	Date	Particulars	Amount £	s.	d.	Days	Products
19—							19—						
Jan. 1	To Goods	140	–	–	180	25,200	Feb. 15	By Cash	50	–	–	135	6,750
Mar. 3	„ Bill due 6 Apr.	100	–	–	85	8,500	Mar. 2	„ Goods	345	–	–	120	41,400
Apr. 11	„ Cash	100	–	–	80	8,000	May 11	„ Do.	85	–	–	50	4,250
„ 30	„ Goods due 31 May	116	–	–	30	3,480	June 15	„ Do. due 31 July	145	–	–	31	4,495
May 31	„ Goods	125	–	–	30	3,750	„ 30	„ Balance of Products					1,025
June 30	„ Red Ink Interest as per contra					4,495							
„ 30	„ Interest on balance of products: $\frac{1025 \times 10}{73,000}$		2	9									
„ „	„ Balance c/d	43	17	3									
		£625	–	–		53,425			£625	–	–		53,425
							June 30	By Balance b/d	43	17	3		

[1] This method is recommended to students as the best for examinations.

Example B3. Same as B2, but interest calculated from due date of each transaction to *époque* or beginning of period of account.

Dr. W. WHITE IN ACCOUNT CURRENT WITH R. REED *Cr.*

Date	Particulars	Amount £	s.	d.	Days	Products	Date	Particulars	Amount £	s.	d.	Days	Products
19—							19—						
Jan. 1	To Goods . .	140	–	–	—	*époque*	Feb. 15	By Cash . .	50	–	–	45	2,250
Mar. 3	„ Bill due 6 April .	100	–	–	95	9,500	Mar. 2	„ Goods . .	345	–	–	60	20,700
Apr. 11	„ Cash . .	100	–	–	100	10,000	May 11	„ Do. . .	85	–	–	130	11,050
„ 30	„ Goods due 31 May .	116	–	–	150	17,400	June 15	„ Do. due 31 July	145	–	–	211	30,595
May 31	„ Goods . .	125	–	–	150	18,750							
June 30	„ Balance of Capital, £44 . .				180	7,920							
„ „	„ Balance of Products					1,025							
„ „	„ Interest on Balance of Products: $\frac{1025 \times 10}{73,000}$		2	9									
„ „	„ Balance c/d	43	17	3									
		£625	–	–		64,595			£625	–	–		64,595
							June 30	By Balance b/d . .	43	17	3		

Example B4. Same as B2, but interest calculated on the varying balance of the account from the date of one transaction to the date of the next, allowing for any items debited or credited before their due dates.

Dr. W. WHITE IN ACCOUNT WITH R. REED *Cr.*

Date	Items		Amount £	s.	d.	Due Date	Days	Products Dr. £	Products Cr. £
19—									
Jan. 1	To Goods . .	Dr.	140	–	–	. . . . . .	45	6,300	
Feb. 15	By Cash . .	Cr.	50	–	–				
		Dr.	90	–	–	. . . . . .	15	1,350	
Mar. 2	By Goods . .	Cr.	345	–	–				
		Cr.	255	–	–	. . . . . .	1		255
„ 3	To Bill Payable	Dr.	100	–	–	6 April . .	34		3,400
		Cr.	155	–	–	. . . . . .	39		6,045
April 11	To Cash . .	Dr.	100	–	–				
		Cr.	55	–	–	. . . . . .	19		1,045
„ 30	To Goods . .	Dr.	116	–	–	31 May . .	31		3,596
		Dr.	61	–	–	. . . . . .	11	671	
May 11	By Goods . .	Cr.	85	–	–				
		Cr.	24	–	–	. . . . . .	20		480
„ 31	To Goods . .	Dr.	125	–	–				
		Dr.	101	–	–	. . . . . .	15	1,515	
June 15	By Goods . .	Cr.	145	–	–	31 July . .	46	6,670	
		Cr.	44	–	–	. . . . . .	15		660
„ 30	To Interest on Balance of Products: $\frac{1025 \times 10}{73,000}$	Dr.		2	9				1,025
		Cr.	£43	17	3			£16,506	£16,506

NOTE. This method is sometimes called the "Hamburg" method.

AVERAGE DUE DATE

Definition. The average due date is the mean, or equated, date on which a single payment may be made in lieu of several payments on different dates.

For what Purpose Used. The average due date method of payment is used in the settlement of bills and contra accounts, and for calculating interest (*a*) on partners' drawings, (*b*) on the realization of book debts in a partnership liquidation.

Process of Working. The method of working is as follows—

1. Take any convenient date, preferably the *first* due date of the transactions, as a starting-point.
2. Multiply the amount of each transaction by its number of days from the starting-point. Fractions of a pound under ten shillings are ignored; ten shillings and over are counted as another pound.
3. Add up these various products into one total.
4. Add up the amounts of the various transactions into one total.
5. Divide the total of the products by the total amount of the transactions.
6. The result will be the number of days that the average due date is *subsequent* to the starting-point. This date can then be calculated, one-half of a day or over being counted as another day, and fractions under one-half being ignored.

If we base our calculations on the *last* due date as the starting-point, the answer will give us the number of days that the average due date is *previous* to the starting-point. Should we select an intermediate date as the *époque* or fixed starting-point, then we must take the difference between the two lots of products, i.e. those *previous* to the *époque* and those *subsequent* to it. The balance belongs to the side of the greater products. If the products above the *époque* transaction are the greater, the average due date will be *prior* to the starting-point; if the products below the *époque* transaction are the greater, then the average due date will be *subsequent* to the starting-point.

Where there are both debit and credit items, a starting-point must be fixed, either one of the inside or one of the outside dates, but preferably the first due date. Each side must then be treated separately. Divide the balance of the products by the balance of the money columns. The result will show the number of days that the average due date is from the *époque* or base date.

Example 1. A merchant has purchased goods, the due dates of which are as follows—

March 15th, £220, due April 18th.
April 21st, £125, due May 24th.
April 27th, £200, due June 30th.
May 15th, £350, due July 18th.

He wishes to give a bill for the total amount due, the bill to be drawn payable on the average due date. Ascertain this date.

1. Take 18th April as starting-point.

April 18th	=	0	days from	starting-point.
May 24th	=	36	"	"
June 30th	=	73	"	"
July 18th	=	91	"	"

Amounts		*Days*		*Products*
£220	×	0	=	0
125	×	36	=	4,500
200	×	73	=	14,600
350	×	91	=	31,850
£895				50,950

$\frac{50950}{895}$ = 57 nearly. The average due date is, therefore, 57 days from starting-point. Calculating this, we find the average due date is the 14th June, i.e. 12 in April, 31 in May, 14 in June.

2. Take 18th July as starting-point.

Amounts		*Days*		*Products*
£220	×	91	=	20,020
125	×	55	=	6,875
200	×	18	=	3,600
350	×	0	=	0
£895				30,495

30,495 ÷ 895 = 34. The average due date is, therefore, 34 days *previous* to 18th July. This works out to 16 days from the end of June (18 in July and 16 in June). June 30th—16th = 14th June, as before.

3. Take 30th June as starting-point.

Amounts		*Days*		*Products*	
£220	×	73	=	16,060	
125	×	37	=	4,625	
					20,685
200	Zero Date				
350	×	18	=		6,300
£895					14,385

The number 14,385 is the difference between the totals of the products previous to the starting-point and subsequent to it (20,685 - 6,300). The balance belongs to the side of the greater products, and the due date in this case will consequently be *prior* to the starting-point.

14,385 ÷ 895 = 16. The average due date is, therefore, June 30 - 16, that is, the 14th June, as in the two previous examples.

Example 2. S. Spender, a partner in the firm of Wise & Co., has, during the year, drawn for his own use the following sums—

17th Jan., £20; 25th Feb., £15; 15th Mar., £25; 19th Apr., £16; 14th May, £22; 23rd June, £19; 18th July, £24; 25th Aug., £18; 20th Sept., £25; 16th Oct., £17; 21st Nov., £21; 25th Dec., £30.

He is to be charged interest thereon at 5 per cent per annum up to the end of the year. Work out the total interest by means of the average due date method.

Amounts		*Days*		*Products*
£20	×	348	=	6,960
15	×	309	=	4,635
25	×	291	=	7,275
16	×	256	=	4,096
22	×	231	=	5,082
19	×	191	=	3,629
24	×	166	=	3,984
18	×	128	=	2,304
25	×	102	=	2,550
17	×	76	=	1,292
21	×	40	=	840
30	×	6	=	180
£252				42,827

42,827 ÷ 252 gives 170 days prior to 31st Dec. at the average due date; Interest on £252 at 5 per cent for 170 days = 252 × ·023287 (table, page 134) = £5·868 = £5 17s. 4d.

We will now verify our answer by means of the product method. The products will be the same as before, namely, 42,827

$$\frac{42{,}827 \times 10}{73{,}000} = £5{\cdot}867 = £5 \text{ 17s. 4d.}$$

We will next verify our answer by ascertaining the interest on each item separately.

Date	*Days*	*Amount*			*Decimals (Table pp. 134 and 135)*	*Interest*		
		£	s.	d.		£	s.	d.
Jan. 17	348	20	–	–	·047671		19	1
Feb. 25	309	15	–	–	·042328		12	8
Mar. 15	291	25	–	–	·039863		19	11
April 19	256	16	–	–	·035068		11	3
May 14	231	22	–	–	·031643		13	11
June 23	191	19	–	–	·026164		9	11
July 18	166	24	–	–	·022739		10	11
Aug. 25	128	18	–	–	·017534		6	4
Sept. 20	102	25	–	–	·013972		7	–
Oct. 16	76	17	–	–	·010411		3	6
Nov. 21	40	21	–	–	·005479		2	4
Dec. 25	6	30	–	–	·000822			6
		£252	–	–		£5	17	4

Example 3. C. Chambers sells goods to S. Coles, as under—
4th Jan., £250; 18th Feb., £175; 24th Mar., £210.
He also buys goods from S. Coles as follows—
23rd Jan., £125; 10th Mar., £236; 17th April, £85.
Chambers's terms are bill at two months, but Coles's terms are bill at one month. Both parties, however, desire payment at the equated date. When will this be, and for what amount?

Dr. S. COLES IN ACCOUNT WITH C. CHAMBERS *Cr.*

Date	Item	Due Date	Amount			Days	Products	Date	Item	Due Date	Amount			Days	Products
19—		19—	£	s.	d.			19—		19—	£	s.	d.		Starting point.
Jan. 4	To Goods	Mar. 7	250	–	–	9	2,250	Jan. 23	By Goods	Feb. 26	125	–	–	—	
Feb. 18	„ „	Apr. 21	175	–	–	54	9,450	Mar. 10	„ „	Apr. 13	236	–	–	46	10,856
Mar. 24	„ „	May 27	210	–	–	90	18,900	Apr. 17	„ „	May 20	85	–	–	83	7,055
								„ „	„ Bal. c/d		189	–	–		12,689
			£635	–	–		30,600				£635	–	–		30,600
	To Bal. b/d		189	–	–										

$$\frac{12689}{189} = 67.$$ { 67 days from starting-point = 4th May (2 in Feb., 31 in March, 30 in April, and 4 in May).

On 4th May, then, Coles must pay Chambers £189.

NOTE. Days of grace, i.e. three days must be included when calculating due dates.

Average Due Date and the Table of Days. The Table of Days on page 131 will be found very serviceable in determining quickly and accurately the *day* and *month* of the average due date. Let us refer to Example 1 on page 142. We require to know the average due date, which the answer says is 57 days from the starting-point, viz. 18th April. From the table we find—

Number corresponding to 18th April = 108; 108 + 57 = 165.

Date corresponding to the number 165 = 14th June.

Again, in Example 3 (above) the average due date, according to the answer, is 67 days from the starting-point of 26th Feb. From the table—

26th Feb. = 57; 57 + 67 = 124; 124 = 4th May.

QUESTIONS ON CHAPTER IV

A

1. What is an Account Current? Explain the meaning of the following—
" F. Smithers in Account Current with P. Jones."

2. Explain, with example, how the days in any given period are calculated. What variations exist with regard to the number of days (*a*) in a month, (*b*) in a year?

3. When transactions have both a date of entry and a due date, from which date does interest commence?

4. When is the initial date in an account current (*a*) counted, (*b*) not counted? At what date should the balance of an account current be brought down, and why?

5. Find, by means of actual calculation, the number of days from 16th January to 29th May, and verify your answer by means of the Table of Days on page 131.

6. Explain briefly the three different ways of reckoning interest, in accounts current, as regards the number of days.

7. Explain briefly the three different methods of calculating the amount of interest in accounts current.

8. What is meant by the following terms: English method, Continental method, Hamburg method? What is the disadvantage of the so-called English method?

9. Ascertain, at sight, the interest represented by the following decimals—
(*a*) ·765428; (*b*) ·954907; (*c*) ·387619; (*d*) ·858762.

10. Find, by actual calculation, the interest on £179 for 239 days at the rate of 5 per cent per annum, and verify your answer by means of the Interest Tables on page 133.

B

1. Explain what variation in calculation is necessary when different rates are charged on debits and credits in the same account current.

2. What is Red Ink Interest? How does it arise? How is it dealt with?

3. Explain the phrase, "Balance of Capital or Principal," and what treatment it requires in particular accounts current. How does leap year affect the number of days in the monthly calculation?

4. On which side is the balance of products entered, and to which side does it belong?

5. On which side is the balance of interest entered, and to which side does it belong—
(*a*) In the forward method?
(*b*) In the backward or *époque* method?
(*c*) In the "steps" method?

6. When there is "red ink" interest on both sides of an account current, how is it treated?

7. What is meant by "average due date"? For what purposes is such method of calculation used?

8. Explain briefly the process of ascertaining the average due date of several transactions.

9. How would the same average due date calculation be affected—
(*a*) By taking the first due date as the starting-point?
(*b*) " " " last " " " " ?
(*c*) " " an intermediate " " " ?

10. How is the average due date ascertained when there are several debit and several credit transactions of varying due dates?

EXERCISE IV

1. What do you understand by an Account Current? Make out such an account for Yeadon & Co. from the following—

Jan. 1. Sold Goods to Marshall & Co., £200, due 1st March.
Feb. 1. Received cash from Marshall & Co., £100.
Mar. 1. Bought Goods from Marshall & Co., £500, due 1st May.
April 1. Paid Marshall & Co., £300.
May 1. Bought Goods from Marshall & Co., £200.
June 30. Sold Goods to Marshall & Co., £300.

Interest 5 per cent, the account to be made up to 30th June. (*Lancashire and Cheshire Union.*)

2. The undermentioned transactions took place between Robertson & Co., of London, and Trumper & Co., of Melbourne—

			£
Dec.	31.	Balance owing by Trumper & Co. to Robertson & Co. at this date	500
Jan.	7.	Robertson & Co. shipped Goods to Trumper & Co. . .	300
April	10.	Bank Draft received this day by Robertson & Co. from Trumper & Co.	600
„	15.	Robertson & Co. paid on behalf of Trumper & Co.—	
		Charges, Orient Mail S.S. Co.	50
		London Packing Co., Ltd.	100

Prepare Account Current bearing interest at 5 per cent to be rendered by Robertson & Co. to Trumper & Co., as on 30th April. (*Royal Society of Arts.*)

3. Define an " Account Current," and make out such an account for Alfred Brown in respect of the following transactions with Charles Dawson—

1936.

Jan. 17. Goods sold to Charles Dawson, £200, due 1st February.
Feb. 1. Received cash from Charles Dawson, £50.
Mar. 18. Goods bought of Charles Dawson, £300, due 1st April.
April 1. Paid to Charles Dawson, cash, £200.
May 1. Goods bought of Charles Dawson, £150.
„ 10. Goods sold to Charles Dawson, £120, due 1st June.

The account to be made up to 1st June, 1936, interest to be at 6 per cent per annum, which may be calculated by months instead of days. (*Lancashire and Cheshire Union.*)

4. T. Tongs has the following transactions with P. Parker—

July 3. Sold goods to P. Parker, £175 16s. 11d.
Aug. 14. Remittance from P. Parker, £75 15s. 6d.
Sept. 8. Goods bought of P. Parker, £319 10s. 7d.
„ 10. Accepted P. Parker's draft, dated 9th inst., at 1 m/d for £125.
Oct. 15. Cash paid to P. Parker, £95 14s. 10d.
„ 31. Goods invoiced to P. Parker, £138 2s. 8d. due 1 m/d.
Nov. 9. Bought goods from P. Parker, £65 18s. 3d.
„ 30. Sold goods to P. Parker, £115 17s. 11d.
Dec. 20. Bought goods from P. Parker, £167 7s. 9d.

Make up an Account Current to be rendered by T. Tongs at 31st Dec., bringing interest into account at the rate of 5 per cent per annum.

5. From the following particulars make up an Account Current to be rendered by C. Evans to W. Wood, as at 31st December, reckoning interest at 5 per cent per annum—

July 5. Sold goods to Wood, £163 9s. 10d.
Aug. 12. Remittance from Wood, £66 16s. 6d.
Sept. 7. Bought from Wood, £356 6s. 11d.
„ 8. Accepted Wood's draft at 1 m/d for £110 10s. 10d.
Oct. 12. Cash paid on account of Wood, £99 9s. 11d.
„ 30. Goods sold to Wood, £127 13s. 4d., due end of November.
Nov. 13. Bought goods from Wood, £92 13s. 3d.
„ 30. Sold goods to Wood, £136 5s. 8d.
Dec. 11. Bought goods from Wood, £155 15s. 5d., due 11th January.
„ 17. Sold goods to Wood, £129 16s. 4d., due 17th January.

6. E. Easton receives on account of W. West—

10th Jan., £120 2s. 11d.; 15th Feb., £250 9s. 6d.; 21st Mar., £300 15s. 10d.; 18th April, £275 16s. 8d.

He pays on account of W. West—

15th Jan., £75 15s. 8d.; 8th Feb., £199 18s. 10d.; 16th Mar., £256 10s. 9d.; 20th April, £240 3s. 6d.

Make up an Account Current to end of June, charging and allowing interest at the rate of 6 per cent per annum.

7. From the following particulars construct an Account Current as at 25th April, reckoning interest at 5 per cent per annum, and show amount of cheque in settlement—

N. NORTHCOTE IN ACCOUNT WITH S. ANDERSON & CO.

19—		£	s.	d.	19—		£	s.	d.
Apr. 16.	To your Draft at sight . .	250	–	–	Apr. 18.	By Cash as per A/c Sales .	355	2	10
" "	" Charges as per A/c Sales .	127	17	11	" 22.	" Ditto . .	75	16	4
" 18.	" Advertising .	1	15	6	" "	" Proceeds as per A/c Sales due 15th May	238	18	11
" 25.	" Our Commission . .	33	9	11					

8. From the following particulars construct an Account Current, reckoning interest at 5 per cent per annum to 30th June—

O. JORDAN IN ACCOUNT WITH T. TETLOW

19—		£	s.	d.	19—		£	s.	d.
Jan. 1.	To Balance . .	771	10	8	Feb. 12.	By A/c Sales of Cotton .	1,019	18	8
" 23.	" Cash paid to meet your sight Draft .	55	8	6	Apr. 30.	" A/c Sales of Cotton .	957	4	2
Feb. 8.	" Acceptance of your Draft due 11th Mar.	300	–	–					
" 26.	" Cash paid to meet your Sight Draft .	52	12	7					
Mar. 9.	" Acceptance of your Draft due 12th May	300	–	–					
Apr. 15.	" Cash paid to meet your Sight Draft .	110	10	5					
May 10.	" Ditto . .	92	16	8					
June 8.	" Acceptance of your Draft due 11th Aug.	200	–	–					

9. M. Bressloff of Liverpool dispatched goods to his agent, M. Goodman of Calcutta, and the agent forwarded sale sheets as under—

12th Jan., £420 10s. 6d.; 15th Feb., £356 9s. 11d.; 21st Mar., £238 18s. 10d.; 10th April, £127 2s. 8d.

The terms of payment were net cash in Liverpool two months from date of sale sheet. Remittances were made as follows—

10th Mar., £250; 10th April, £150; 6th May, £250; 15th June, £350.

Settlement was to be effected half-yearly, on the basis of an Account Current, with interest at the rate of 5 per cent per annum. Draw up the Account Current and show balance due on 30th June.

10. From the following particulars, draw up an Account Current as at 31st May, reckoning interest at 5 per cent per annum—

C. CEDAR IN ACCOUNT WITH J. HUGHES

19—			£	s.	d.	19—			£	s.	d.
Jan.	1.	To Balance . .	287	11	5	Feb.	10.	By Net Proceeds, A/c Sales of Cotton, due end of Feb. .	965	13	10
„	26.	„ Cash paid to your Sight Draft . .	50	4	7	May	15.	„ Net Proceeds, A/c Sales of Cotton, due end of May .	1,017	2	8
Feb.	6.	„ Acceptance of your Draft @ 2 m/d . .	500	-	-						
„	25.	„ Cash paid to your Sight Draft . .	125	10	6						
Apr.	6.	„ Acceptance of your Draft @ 2 m/d . .	500	-	-						
„	11.	„ Cash paid to your Sight Draft . .	120	15	6						
May	11.	„ Ditto . .	225	16	2						

11. The following sums have been drawn by J. Stewart, a partner in the firm of Flowers & Co.—

15th Jan., £35; 20th Feb., £45; 18th Mar., £35; 20th April, £25; 13th May, £26; 15th June, £15; 20th July, £42; 17th Aug., £34; 21st Sept., £32; 14th Oct., £28; 18th Nov., £35; 21st Dec., £38.

Make up his Drawings Account as at 31st December, charging interest at 5 per cent per annum, and calculating same by means of the product method, as in accounts current.

12. From the following prepare an Account Current, reckoning interest at 5 per cent per annum to end of March—

L. LOCKE IN ACCOUNT WITH K. KAY

19—			£	s.	d.	19—			£	s.	d.
Jan.	1.	To Balance . .	125	15	3	Feb.	10.	By Cheque . .	70	-	-
Feb.	12.	„ Goods . .	62	10	6	„	15.	„ Draft @ 1 m/d	65	-	-
						Mar.	5.	„ Expenses .	15	11	3
						„	31.	„ Postages .	1	12	6
						„	„	„ Commission .	1	2	6

13. Prepare an Account Current, to be rendered by O. Oldham, of Bombay, to N. Newton, of Manchester, from the following particulars—

Balance due to N. Newton on 1st Jan., £753 2s. 11d.

N. Newton accepted drafts as under—

29th Jan., £250 at 1 m/d; 28th Feb., £250 at 1 m/d; 31st Mar., £250 at 1 m/d.

Payments made on account of O. Oldham—

22nd Jan., £27 16s. 4d.; 12th Feb., £106 12s. 6d.; 11th April, £152 3s. 11d.; 13th May, £236 12s. 10d.

Credits to O. Oldham—

27th Jan., net proceeds of Account Sales of Cotton, £1,617 14s. 8d., due 15th March; 24th May, net proceeds of Account Sales of Cotton, £606 2s. 8d., due 15th June.

Interest to be calculated at 5 per cent to end of June.

14. A. Ashton, of London, sells goods to B. Beech, of Calcutta, for payment in London on the average due date. The sales are due as under—

5th June, £726 16s. 2d.; 12th July, £979 17s. 8d.; 26th Aug., £1,127 3s. 11d.; 18th Sept., £359 8s. 6d.

Find the average due date by taking 5th June as the starting-point, and verify your answer by taking (*a*) 18th Sept., (*b*) 26th Aug., as starting-points respectively.

15. A merchant desires to ascertain the average date on which to draw for the total amount due, as follows—

5th June, £355 9s. 10d.; 8th July, £466 16s. 8d.; 11th Sept., £229 14s. 7d.
State the average due date, and show the process of working.

16. A merchant trading with a distant colonial market allows long credit, and his terms of payment are: "All goods purchased during the month to be drawn for on the 15th of the following month, at six months, plus bill stamp." Goods are sold as follows—

12th Jan., £375 2s. 9d.; 26th Feb., £268 16s. 6d.; 3rd March, £349 14s. 4d.; 19th March, £186 3s. 7d.
The total is drawn for at the average due date. Ascertain this date.

17. A merchant has purchased goods the due dates of which are as under—

12th Aug., £156 15s. 9d., due on 12th Sept.
21st Aug., £298 4s. 5d., „ 1st Oct.
23rd Sept., £127 17s. 2d., „ 1st Nov.
9th Oct., £395 5s. 8d., „ 19th Nov.

Payment is arranged to be made for the total amount at the average due date. What is this date?

18. E. Ellis, a partner in the firm of Forest & Co., has, during the year, drawn for his own use the following sums—

11th Jan., £25; 15th Feb., £15; 18th March, £28; 13th April, £25; 17th May, £22; 20th June, £25; 23rd July, £24; 12th Aug., £26; 14th Sept., £21; 16th Oct., £23; 15th Nov., £28; 21st Dec., £35.

He is to be charged interest at the rate of 5 per cent per annum on the total amount at the average date. Ascertain this interest, and verify your answer—

(1) By means of the product method as in accounts current;
(2) By calculating the interest on each item separately.

19. F. Elliott sells goods to P. Pine as under—

12th July, £26 13s. 2d.; 20th Aug., £129 5s. 10d.; 15th Sept., £265 17s. 11d.

He also purchases goods from P. Pine as follows—

20th July, £178 4s. 8d.; 10th Aug., £296 18s. 6d.; 22nd Sept., £97 6s. 8d.

Elliott gives only one month's credit, but Pine allows two months. Both parties, however, desire settlement at the equated date. When will this be, and for what amount?

20. Jones and Brown dissolve partnership on 1st January, and their Balance Sheet, after all adjustments, was as follows—

BALANCE SHEET AS AT 1ST JAN.

Liabilities	£	*s.*	*d.*	*Assets*	£	*s.*	*d.*
Sundry Creditors	1,277	12	6	Cash	1,565	10	5
Capital A/cs—				Sundry Debtors	4,281	10	10
Jones	3,000	–	–	Fixtures and Fittings	430	11	3
Brown	2,000	–	–				
	£6,277	12	6		£6,277	12	6

Brown is to take over the Fixtures at their book value, to allow Jones £700 for his share of the Goodwill, and to pay him the amount due as and

when realized, interest to be brought into account at the rate of 5 per cent per annum. The Debtors were realized at an average date of eight months, and the Creditors paid at an average date of five months, from the date of dissolution. Brown paid Jones £650 on 15th March, £650 on 15th June, £650 on 15th September, and the balance on 31st December. Draw up the Account Current, and show the final payment made to Jones.

REVISION EXERCISE IV

1. What do you understand by—
   (a) Nominal account,
   (b) Real account,
   (c) Personal account?

Give two examples of each. *(Lancashire and Cheshire Union.)*

2. Write up in the several books to which they properly belong, the following transactions—

19..
Jan. 2. Sold James & Co., 20 tons 10 cwt. 2 qrs. Steel Bars at 103s. 4d. f.o.b.
" " Paid Carriage thereon at 2s. 6d. per ton, by Cheque on " Provincial Bank."
" " Received Cheques—J. Tasker, £47 10s.; W. Methley, £39 15s.; and from J. Moulton, £43 17s. 6d., in payment of his Account after deducting 2½ per cent Discount.
" 6. Received from W. Lyons, 150 tons Pig Iron at 43s. 4d., less 3 per cent—remitted him acceptance at 3 months, dated 1st inst.
" 7. Received from J. Kitson his acceptance at 4 months, dated 4th inst., for £178 10s., in payment of his Account.
" 9. Gave Cheques for—Rent, £100, quarter year due 1st inst.; Salaries, £25; and for Wages, £75.
" 11. Received from " Provincial Bank," J. Butler's Dishonoured acceptance for £35 6s. 8d., with 7s. 6d. expenses.

(London Chamber of Commerce.)

3. Explain the difference between a " Trading " Account and a " Profit and Loss " Account, and state in which account you would place the following items, giving your reasons—

Purchases	Allowances
Manufacturing Wages	Debenture Interest
Carriage	Salaries
Returns	Advertising
Sales	Stocks and Materials

(Royal Society of Arts.)

4. William Ashton is a shipbuilder. On 1st January he had a Capital of £23,760 7s. 8d., Bills Payable current No. 135, £640 8s. 0d., No. 136, £728 10s. 0d., No. 137, £320 17s. 6d., and having received on Account of Ships in progress, " Owl," £6,849, and " Hawk," £3,500. A Mortgage to P. Piper for £8,000 existed on his Works and Plant, which were valued as follows: Freehold Works and Buildings, £9,127 10s. 0d., Fixed Plant and Machinery, £7,826 15s. 0d., Dry Dock, £6,284, Loose Plant and Rolling Stock, £2,788 5s. 6d.

He owed to Brown & Co., £848 19s. 0d., Jones & Co., £1,653 10s. 0d., Robinson & Co., £984 17s. 0d. He had Cash at Bankers, £2,796 8s. 8d., and in Office, £120 14s. 6d. His Bills Receivable in hand were No. 186, £329 6s. 6d., No. 187, £546 10s. 0d., No. 188, £490 9s. 6d.

He had three ships under construction, on which he had expended in Work and Materials, " Owl," £7,126, " Hawk," £4,291, " Sparrow," £835.

The Stock of Stores and Materials on hand, valued at cost price, was £4,724 9s. 6d.

You are required to make the necessary " opening entries." (*Royal Society of Arts.*)

5. At a recent examination, the understated " Balance Sheet " was sent in by a Candidate. Have you any criticism to offer upon it?

BALANCE SHEET

MESSRS. A. & B. 31ST DEC., 19—

Assets	£	s.	d.	£	s.	d.	*Liabilities*	£	s.	d.	£	s.	d.
Plant A/c . .				4,000	–	–	A's Capital . .	3,000	–	–			
Debtors . . .	8,200	–	–				*Add* Interest .	150	–	–			
Less Reserve .											3,150	–	–
(31st Dec.) .	410	–	–	–			B's Capital . .	2,000	–	–			
				7,790	–	–	*Add* Interest .	100	–	–			
A's Drawings . .				300	–	–					2,100	–	–
B's Drawings . .				200	–	–	Creditors . .				9,800	–	–
Repairs . . .				120	–	–	A's Profits . .				1,800	–	–
Stock (1st Jan.) .	3,200	–	–				B's Profits . .				1,800	–	–
„ (31st Dec.) .	4,000	–	–				Depreciation on						
				7,200	–	–	Plant . . .				200	–	–
Cash . . .				420	–	–	Reserve for						
							Debtors (Jan.) .				350	–	–
							Balance . . .				830	–	–
			£	20,030	–	–				£	20,030	–	–

(*London Chamber of Commerce.*)

6. The undermentioned errors were made by the counting-house staff in the books of Messrs. Black & Brown during the year ended 31st December—

(*a*) On 30th June, a builder's charge for the erection of a small shed, amounting to £198, was analysed in the Purchases Journal under the head of " Repairs," and posted to that account.

(*b*) On 1st July a cheque for £18 2s. 4d. received from James Smith was dishonoured, and was posted to " Allowance Account."

(*c*) On 12th August the total of the previous month's wages was debited to " Manufacturing Wages Account." During the month some new machinery had been put down, and the firm's own men had spent time thereon amounting to £141.

(*d*) On 28th December, goods to the value of £64 were returned by Francis White, and were taken into stock; but the returns were not entered in the books until 2nd January.

How would you adjust these errors, and how would they affect the Annual Accounts for the year ended 31st December? (*Royal Society of Arts.*)

7. John Pearson and Allan Macgregor are in partnership as Corn Dealers. On 31st December the following Balances were extracted from their books.

You are requested to prepare a Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. Before preparing these accounts, it is necessary to take the following matters into consideration—

(*a*) Profits and Losses are to be shared, two-thirds by Pearson, and one-third by Macgregor.

(*b*) Interest at 5 per cent per annum is to be charged on Capital but not on Drawings.

(*c*) Depreciation is to be charged as follows: (1) Fixtures and Fittings, 5 per cent. (2) Plant and Machinery, 10 per cent. (3) Horses and Carts, 15 per cent.

(*d*) The Bad Debts reserve is to be made up to £500.

(*e*) Only three-quarters' Rent had been paid on 31st December, and no reserve had been passed through the books for the quarter owing.

(*f*) The unexpired amounts to be carried forward are: (1) Rates and Taxes, £14 8s. 7d. (2) Insurance, £7.

(*g*) The value of the Stock in hand, as on 31st December, was agreed at £2,994 14s. 7d.

Give the Journal entries for the above adjustments.

BALANCES

	£	s.	d.		£	s.	d.
John Pearson, Capital	6,000	–	–	John Pearson, Drawings	650	–	–
Allan Macgregor, ,,	3,000	–	–	Allan Macgregor, ,,	300	–	–
Repairs and Renewals	248	2	1	Water, Gas, etc. .	126	2	7
Plant and Machinery .	847	10	–	Rent	150	–	–
Sales	19,947	18	9	Reserve for Bad Debts			
,, Returns . .	742	7	8	(1st Jan.) . .	150	–	–
Stock (1st Jan.) .	2,721	14	1	Insurance . .	30	5	2
Bad Debts . .	89	4	–	Trade Expenses .	197	18	1
Cash Sales . .	384	2	9	General Expenses .	203	1	2
Carriage . . .	1,421	10	7	Discounts . *Cr.*	4	9	7
Travelling Expenses .	156	14	2	Sundry Creditors .	1,099	10	10
Stable Expenses .	192	1	4	Sundry Debtors .	5,771	4	1
Purchases . .	13,728	–	6	Horses and Carts .	356	14	11
,, Returns .	757	16	5	Rates and Taxes .	127	4	6
Bills Receivable .	929	1	1	Fixtures and Fittings	375	8	9
Wages . . .	1,646	13	10	Commission . *Dr.*	62	12	7
Salaries . . .	346	2	3	Cash in hand . .	46	7	1
				Bank balance . *Cr.*	122	2	2

(*Royal Society of Arts.*)

CHAPTER V

CONSIGNMENTS OUTWARDS, CONSIGNMENTS INWARDS, JOINT ADVENTURES

Definition. An Outward Consignment is the dispatch of a quantity of goods from one place to another, usually to some country or place abroad, for the purpose of sale.

Consignor. A consignor is a person who forwards the goods for sale.

Consignee. A consignee is the person to whom the goods are forwarded for sale.

Commission. This is a term used to denote the remuneration of the consignee for selling the goods.

Differences between a Consignment and a Sale. There are two principal differences between a Consignment and a Sale. When goods are *sold* to a person, the property in them passes to that person; when goods are *consigned* to a person the legal ownership of the goods remains in the consignor. Hence, the person to whom goods are sold is a *debtor*; but the person to whom goods are consigned is merely an *agent*. Again, a consignment is returnable if it cannot be marketed; but goods sold are not returnable, except for some special reason, such as on account of damage or being of the wrong kind.

Difference between a Consignment and Goods on Sale or Return. In the case of a consignment the person to whom the goods are sent is an *agent* of the sender; but in the latter case, the person to whom the goods are sent is merely an *optional purchaser*.

Special Consignment Books and Marks. When consignments are very numerous, a special " Consignment Day Book " and a separate " Consignment Ledger " are generally kept. The total of the Consignment Day Book is credited monthly to a " Goods on Consignment Account " in the General Ledger. In examination work a Journal entry is usually sufficient. Consignments are distinguished by the name of the consignee, or by the name of the place to which the goods have been consigned, or by a special letter or number, or by both; for example, " Consignment to A. Smith," or " Consignment to Calcutta," or " Consignment No. Ad 46."

Pro Forma Invoice. When goods are consigned, a *pro forma* invoice is forwarded with them giving particulars as to the nature of the goods, number, and/or quantity, weight, measurement, prices, marking, packing, etc. The goods are dealt with in the consignor's books usually at cost price, but the invoice to the consignee is usually made out at a higher figure. If the consignment has been

entered up in the consignor's books at figures in excess of cost (which would be irregular) credit will have been taken for profit before it has been realized. If, at balancing time, the consignment is still unsold, such profit must, of course, be transferred to a " Consignment Suspense Account."

Expenses on Consignment. In consigning goods abroad certain expenses will be incurred, namely, carriage or cartage to the dock, dock dues, freight, marine insurance, etc. All these expenses must be charged direct to the Consignment Account, from the Cash Book, if paid, but, if unpaid, by means of Journal entry, thus—

Consignment Account	*Dr.*
To Railway Company (Carriage)	*Cr.*
,, Shipping Company (Freight)	*Cr.*
,, Insurance Company (Insurance)	*Cr.*
,, Dock Company (Dock Dues)	*Cr.*

When the goods reach their destination there will be further disbursements, namely, dock dues, unloading and cartage, fire insurance, warehouse or storage rent, auction room expenses, brokers' fees, etc. These expenses will be defrayed by the consignee, and debited in his books to the account of the consignor. When settling with the consignor, the consignee will deduct all these charges, and also his selling commission on the *gross* amount of the sales, and remit only the balance, less, of course, any advance or previous payment on account.

Advance on Consignment. In some cases, it is usual for the consignee to remit a certain sum of money as an advance against the consignment. This is not a part payment, but merely an advance by way of security for the large amount of goods forwarded to the consignee. An advance should *not* be put to the credit of the Consignment Account, as it is not part of the proceeds of it. It should be posted to the credit of the consignee's personal account. It thus figures in the books as a liability. This is the correct position, for if the consignee does not sell the goods, the money will have to be repaid to him. On the Balance Sheet, the advance is shown sometimes as a liability, and sometimes as a deduction from the consignment on the assets side, the reason for the latter being that, in the event of the consignee selling the goods, the advance will count as part payment.

Bills Drawn against Consignments. In some cases it is usual for the consignor to draw a bill on the consignee for a large portion of the value of the consignment, and to discount or sell such bill, so that he may not be prevented from having the use of the money until such time as the goods are actually sold and paid for. The bill is known as a **documentary** bill, and the procedure in connection therewith has been fully explained under Foreign Bills in Chapter III. The discount or exchange charged by the bankers

for cashing the bill may be dealt with in two different ways. If regarded as an ordinary financial expense, it is charged to Profit and Loss Account; if looked upon as a special expense in connection with the Consignment, it is debited to the particular Consignment Account.

Del Credere Commission. To prevent any losses by Bad Debts falling upon the consignor, the latter sometimes arranges to pay the agent an extra commission, called a del credere (dĕl krĕd′-ĕr-e) commission. In return for this, the agent guarantees the proceeds of the consignment after the goods are sold, that is to say, the agent will pay the consignor whether he himself receives payment or not.

Account Sales. This is a document showing the gross and net proceeds of the Consignment sold by the consignee for the account of the consignor, and detailing the various expenses and charges in connection therewith. The following is an example—

Account Sales of 30 cases of Fancy Goods ex s.s. *Stormy Petrel*, sold by Trumper & Co., of Wellington, New Zealand, for the account and risk of Messrs. Williams & Sons, London.

			£	s.	d.
W. & S.L. / 1–15	15 cases of Fancy Goods . . .	£12	180	–	–
W. & S.L. / 16–30	15 cases " " . . .	£15	225	–	–
			£405	–	–
	Deduct Charges and Expenses—				
	Cartage . . . . £4 10s. 6d.				
	Storage . . . . £6 15s. 10d.				
	Insurance . . . . £8 10s. 6d.				
	Commission 5%, £405 . £20 5s. –		40	1	10
			364	18	2
	Less Advance		200	–	–
			£164	18	2
	E. & O.E. Sight Draft for £164 18s. 2d. herewith. TRUMPER & Co., Wellington, 10th March, 19..				

In some cases, the consignee pays the outward freight and insurance, and these two items also then appear on the Account Sales. On receipt of the latter document, the consignor will make a Journal

entry in his books debiting the consignee (who has now become his debtor) and crediting the Consignment Account with the *net* proceeds. The procedure detailed in 4 (*a*) and 4 (*b*) on the next page is alternative to the above, but gives the same result.

Account Sales in Currency. Where the Account Sales is rendered in currency, it will require to be converted into sterling before the figures can be dealt with. The rate for conversion will be the rate ruling on the day when the Account Sales is received. Should, however, payment be made at a later date, and a different rate be current when the money is actually received, a Journal entry must be made transferring any profit or loss on exchange either to a "Difference in Exchange Account," or, if preferred, back to the Consignment Account, both methods being in vogue.

Balancing the Consignment Account. When the goods have been fully sold and the Account Sales duly entered up, the Consignment Account is balanced and the balance transferred to Profit and Loss Account, a debit balance denoting a loss and a credit balance representing a gain. When the goods are only partly sold, then the unsold stock, *plus* a proportionate amount of the freight, insurance, and other charges, must be credited and carried forward in the Consignment Account in order to find the profit or loss on the part actually sold. This unsold stock, plus charges, will be shown as an asset on the Balance Sheet. If the consignment expenses were not apportioned, the freight and insurance of the *whole* of the goods would be charged against the sale of *part* of them. If, at balancing time, no part of the consignment is sold, then the amount of the Consignment Account, i.e. cost of the goods *plus* expenses, will be shown on the Balance Sheet as an asset under the heading of "Goods" or "Stock on Consignment."

NOTE. Great care must be taken to see that the remaining goods are still worth the cost price. It by no means follows that if half of a consignment of £500 (£250) has been sold for £400 that there is a profit of £150. It may be that the consignment was a pure speculation and that the remaining goods will almost have to be given away.

Account Current between Consignor and Consignee. Sometimes, interest is brought into account with respect to the transactions connected with the Consignment, thus introducing an Account Current between the two parties. The consignee will charge interest on the various sums of money paid out, on advances, on remittances, on account, and will likewise allow interest on the proceeds of the consignment, the interest running in each case up to the final date of settlement.

Formula for Consignment Outwards—

1. *Debit* Consignment Account, and *credit* a Goods on Consignment

Account, with the cost price of the goods by means of Journal entry.

2. *Debit* Consignment Account with the freight, insurance, and other charges, and *credit* Cash Account, if paid, or a Personal Account, if unpaid.

3. *Debit* Cash Account or Bills Receivable Account with the amount of any advance received, and *credit* personal account of Consignee.

4. When the Account Sales is received—

(*a*) *Debit* Consignee's Account and *credit* Consignment Account with the gross proceeds.

(*b*) *Debit* Consignment Account and *credit* Consignee's Account with the latter's expenses and commission.

5. Balance the Consignment Account and transfer the balance to Profit and Loss Account. Any stock unsold must be *credited* before balancing, and brought down to the debit side.

6. *Debit* Cash Account or Bills Receivable Account with any cash or bill received in settlement, and *credit* Consignee.

7. Close Goods on Consignment Account by transfer to Trading Account.

Example. Consigned goods value £825 to R. Lake, of Melbourne. Paid freight, etc., £65 and insurance, £40. Drew on R. Lake at 3 m/d for £300 as an advance against consignment, and discounted the bill for £296 5s. Received Account Sales from R. Lake showing that part of the goods had realized gross £835 10s., and that his expenses and commission amounted to £87 15s. 6d. The stock unsold was valued, at cost price, at £275. Received draft at two months from R. Lake for amount due. Make the necessary entries in the Consignor's Journal, Cash Book, Ledger, etc., to record the above transactions.

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
	Consignment A/c	825	–	–			
	To Goods on Consignment .				825	–	–
	Value of goods forwarded to R. Lake, of Melbourne.						
	R. Lake	835	10	–			
	To Consignment A/c . .				835	10	–
	Gross proceeds as per Account Sales.						
	Consignment A/c	87	15	6			
	To R. Lake				87	15	6
	Expenses and commission as per Account Sales.						

CASH BOOK

Dr. | *Cr.*

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To Bill Receivable	300	–	–	By Consignment A/c—			
				Freight	65	–	–
				Insurance	40	–	–
				Discount on Bill	3	15	–

BILLS RECEIVABLE BOOK

Date	No. of Bill	From Whom Received	Led. fol.	Dis-count	Amount of Bill £	s.	d.	Date of Bill	Term	Due Date
		R. Lake			300	–	–		3 mos.	
		R. Lake			447	14	6		2 mos.	

LEDGER

CONSIGNMENT TO R. LAKE, MELBOURNE

Dr. | *Cr.*

		£	s.	d.			£	s.	d.
19—	To Goods	825	–	–	19—	By R. Lake	835	10	–
	„ Cash (freight)	65	–	–		„ Stock £275 } c/d			
	„ do. (insurance)	40	–	–		„ Expenses $\frac{275}{825}$ of £105 = £35 } c/d	310	–	–
	„ do. (discount on bill)	3	15	–					
	„ R. Lake (expenses and Commission)	87	15	6					
	„ Profit and Loss A/c (profit)	123	19	6					
	£	1,145	10	–		£	1,145	10	–
	To Balance b/d	310	–	–					

GOODS ON CONSIGNMENT

Dr. | *Cr.*

		£	s.	d.			£	s.	d.
19—	To Trading A/c	825	–	–	19—	By Consignment A/c	825	–	–

R. LAKE

Dr. | *Cr.*

		£	s.	d.			£	s.	d.
19—	To Consignment	835	10	–	19—	By Bill Receivable	300	–	–
						„ Consignment	87	15	6
						„ Bill Receivable	447	14	6
		£835	10	–			£835	10	–

TRADING ACCOUNT

Dr. | *Cr.*

							£	s.	d.
					19—	By Sales			
						„ Goods on Consignment	825	–	–

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

							£	s.	d.
					19—	By Trading A/c (gross profit) .			
						„ Consignment A/c (net profit) .	123	19	6

CONSIGNMENTS INWARDS

Definition. An Inwards Consignment is the receipt of a quantity of goods by a person in this country from a person in some country or place abroad, for the purpose of sale. In fact, an Inwards Consignment is simply the reverse of the Outwards Consignment, that is, as it appears in the books of the consignee.

Difference between an Inwards Consignment and a Purchase. When we buy goods of a person, the property in the goods passes to us; but when we receive a consignment, the ownership of the goods does not pass to us, but remains vested in the consignor. In the first case, the person is our *creditor*, and we are his *debtor*; in the second case he is the principal, and we are his *agent*. An inwards consignment is returnable if it cannot be sold; a purchase of goods is not.

Difference between an Inwards Consignment and an Ordinary Sale of Goods on Commission. With an inwards consignment we receive actual possession of the goods, but in the other case we merely sell from samples. As regards the former we, therefore, record the sale in our books, and open a Ledger Account for the person to whom it is sold. In the latter case, when a sale has been effected, we pass the order on to the principal, booking up only our expenses and commission.

Advance on an Inwards Consignment. On receiving possession of the goods, we may forward the consignor a sum of money, or allow him to draw on us, as an advance against the consignment. The advance will be debited to the personal account of the consignor, and will appear in our books as an asset, being an amount repayable to us in the event of our not being able to dispose of the goods.

Two Methods of Dealing with an Inwards Consignment. The first method is to make no entry in the books when a consignment is received. Not having contracted a liability, we should not make our books appear as if we had. The receipt of the goods is, therefore, recorded merely in a memorandum " Consignment Inwards " or " Consignment Stock " Book. All expenses paid out in connection with the goods, such as dock dues, customs duties, unloading, fire insurance, cartage, storage, warehouse rent, are debited to the account of the consignor. The sales of the goods, either for cash or on credit, are credited to the consignor's account, which is also

debited with any advance and with the commission for selling the goods. The balance of the account shows the final amount due to the consignor, which is settled either by a sight draft or a bill.

The second method is, on receipt of the goods, to open a Consignment Inwards Account and debit it with the invoice value of the goods, at the same time crediting the consignor's account with a like amount Inasmuch as the relationship of debtor and creditor does not as yet exist between the parties to the consignment, this procedure is undoubtedly a direct violation of principle; yet it is justified by some on the ground that it is felt necessary to have some record of the consignment in the financial books, a mere memorandum of it being deemed insufficient and unsatisfactory. The Consignment Inwards Account is debited with all expenses and with the selling commission, and credited with all sales of the goods. The balance of this account shows the profit made on the consignment, and is transferred to the personal account of the consignor. This latter account is debited with any advance, and is closed by being debited with the final draft or bill in full settlement.

Formula for an Inwards Consignment (Principal Method)—

1. On receipt of the goods, no entry.

2. On payment of the various expenses connected with the consignment, *credit* Cash, *debit* Consignor.

3. On sending an advance, *debit* Consignor, *credit* Cash or Bill Payable as the case may be.

4. On selling the goods pertaining to the Consignment—

(*a*) For cash, *debit* Cash, *credit* Consignor.

(*b*) On credit, *debit* Person to whom goods sold, *credit* Consignor, by means of Journal entry.

5. *Debit* Consignor, *credit* Commission Account with the amount of the commission due, by means of Journal entry.

6. Close Consignor's Account by *debiting* it with the final bill or draft in settlement.

Formula for an Inwards Consignment (Alternative Method)—

1. On receipt of the goods, *debit* Consignment Inwards Account, *credit* Consignor, by means of Journal entry.

2. On payment of the various expenses connected with the consignment, *credit* Cash, *debit* Consignment Inwards Account.

3. On sending an advance, *debit* Consignor, *credit* Cash or Bill Payable as the case may be.

4. On selling the goods pertaining to the consignment—

(*a*) For cash, *debit* Cash, *credit* Consignment Inwards Account.

(*b*) On credit, *debit* Person to whom goods sold, *credit* Consignment Inwards Account, by means of Journal entry.

5. *Debit* Consignment Inwards Account with the selling commission as arranged, *credit* Commission Account, by means of Journal entry.

6. Balance the Consignment Inwards Account, and transfer balance to Consignor's personal account. Any unsold stock must be entered on the *credit* side, and brought down as a *debit* balance after ruling off the account.

7. Close Consignor's Account by *debiting* it with the final bill or draft in settlement. The value of any unsold stock must be entered on the *debit* side, and brought down as a *credit* balance after ruling off the account.

NOTE. One great objection to this alternative method is that the full amount to the credit of the consignor might get paid to him though the goods were not realized.

Example. Received Consignment of Goods from J. Rowell valued at £760. Terms: Agent's Commission, 5 per cent on all Sales; *del credere* Commission, 2½ per cent on credit transactions. Paid Customs Duties, £23 14s. 9d.; Landing Charges and Carriage, £8 14s. 9d.; Fire Insurance, £9 10s. Sent J. Rowell an Advance of £225. Sold part of Rowell's consignment to H. Thompson for £420, part for Cash £475, and took part value £200 into stock for our own use. Paid Brokerage, 1¼ per cent, £12. Sent J. Rowell an Account Sales, and sight draft for balance due. The stock remaining unsold was valued at £200. Make the necessary subsidiary book entries, and show the Ledger Accounts.

1. Principal Method—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
	H. Thompson . . . . To J. Rowell . . . . Sale of part of the Inwards Consignment.	420	–	–	420	–	–
	J. Rowell . . . . To Commission . . . . 5% Agent's Commission, £1,095 = £54 15s. 2½% del credere Commission, £420 = £10 10s.	65	5	–	65	5	–

PURCHASES BOOK

		£	s.	d.	£	s.	d.
	J. Rowell . . . . Goods from Consignment .				200	–	–

Dr. CASH BOOK *Cr.*

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To J. Rowell .	475	–	–	By J. Rowell—			
				Customs Duties . .	23	14	9
				Landing Charges, etc. .	8	14	9
				Fire Insurance . .	9	10	–
				„ J. Rowell (advance) . .	225	–	–
				„ J. Rowell (brokerage) .	12	–	–
				„ J. Rowell . . .	750	15	6

LEDGER

Dr. J. ROWELL *Cr.*

19—		£	s.	d.	19—		£	s.	d.
	To Cash—					By Cash . . .	475	–	–
	Customs Duties .	23	14	9		„ Purchases . .	200	–	–
	Landing Charges	8	14	9		„ H. Thompson .	420	–	–
	Fire Insurance .	9	10	–					
	„ Cash (Advance) .	225	–	–					
	„ Cash (Brokerage) .	12	–	–					
	„ Commission . .	65	5	–					
	„ Cash . . .	750	15	6					
	£	1,095	–	–		£	1,095	–	–

2. Alternative Method—

JOURNAL

	Dr. £	s.	d.	Cr. £	s.	d.
Consignment Inwards . .	760	–	–			
To J. Rowell . . .				760	–	–
Receipt of goods on consignment.						
H. Thompson	420	–	–			
To Consignment Inwards .				420	–	–
Sale of part of the consignment.						
Consignment Inwards . .	65	5	–			
To Commission . . .				65	5	–
5% Agent's Commission, £1,095 = £54 15s.						
2½% del credere Commission, £420 = £10 10s.						

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To Consignment Inwards A/c .	475	–	–	By Consignment Inwards A/c—			
				Custom Duties . .	23	14	9
				Landing and Carriage .	8	14	9
				Fire Insurance . .	9	10	–
				„ J. Rowell . . .	225	–	–
				„ Consignment Inwards A/c: Brokerage . . .	12	–	–
				„ J. Rowell . . .	750	15	6

LEDGER

Dr. CONSIGNMENTS INWARDS *Cr.*

	£	s.	d.		£	s.	d.
To J. Rowell	760	-	-	By Cash	475	-	-
„ Cash (Customs Duties)	23	14	9	„ Purchases	200	-	-
„ do. (Landing and Cartage)	8	14	9	„ H. Thompson	420	-	-
„ do. (Fire Insurance)	9	10	-	„ Stock unsold c/d	200	-	-
„ Commission	65	5	-				
„ Cash (Brokerage)	12	-	-				
„ Balance transferred to J. Rowell's A/c	415	15	6				
£	1,295	-	-	£	1,295	-	-
To Balance b/d	200	-	-				

Dr. J. ROWELL *Cr.*

	£	s.	d.		£	s.	d.
To Cash	225	-	-	By Consignment Inwards	760	-	-
„ „	750	15	6	„ Transfer from Consignment Inwards A/c	415	15	6
„ Balance (Stock) c/d	200	-	-				
£	1,175	15	6	£	1,175	15	6
				By Balance b/d	200	-	-

The £200 worth taken into stock for own use could either be journalized or entered in the Purchases Book as before, except that the amount would be credited to the Consignment Inwards Account, and not to J. Rowell's Account.

JOINT ADVENTURES

Definition. A Joint Adventure is a partnership without the use of a firm name, limited to a particular speculation in which the two or more persons concerned agree to contribute certain specified amounts of capital and to share profits or losses in the same manner or in any other equitable proportion.

Nature of Joint Adventures. A Joint Venture may consist of a joint consignment of goods, an underwriting transaction, a speculation in shares, or any similar form of enterprise.

Advantages of a Joint Venture. One party may be able to buy at much lower prices and on far better terms than others. Another party may be in a position to sell at exceptionally good prices. A third party, who may not be favourably circumstanced either

for buying or selling, may, however, have special financial resources. Thus, the combined services of the parties in a common adventure may make it a highly remunerative one.

The Methods of Procedure. It is usual for one of the parties to be appointed to manage the joint venture, that is, to do all the buying and selling and to look after it. For these services he obtains an extra remuneration by being allowed to charge against the Joint Account a commission of so much per cent on the amount of the sales, and, in some cases, on the amount of the purchases, sales, and expenses. Under these circumstances a Joint Account is opened and debited with the cost of the goods. Each of the other parties then remits his proportion of the cost, which is placed to the credit of their personal accounts, as this amount is payable back again to them plus their share of profit, or less their share of loss, as the case may be. The Joint Account is also debited with all expenses, charges, and commission; it is likewise credited with all sales whether for cash or on credit. The balance of the account then represents profit or loss to be shared in the agreed proportions. When the goods have been sold and paid for, then a remittance to each of the parties for the amount due to him will close the speculation.

In other cases, each of the parties concerned opens in his books merely an account for the Joint Venture, to record such of the transactions as he is directly concerned with. A general statement, prepared from information supplied by the parties, is rendered showing the profit on the joint speculation. Each party then debits the Joint Account and credits his Profit and Loss Account with his portion of such profit. There will then remain in one party's books a debit balance, and in the other party's books a credit balance, of the same amount. Payment of this balance by one party to the other will finally close the venture.

Sometimes, a separate joint banking account is opened, and a separate set of books kept for the adventure. The transactions are then recorded like ordinary partnership transactions; and, in such cases, interest on capital is generally charged, particularly when the parties interested have advanced unequal amounts.

Example 1. Bought Goods from Martin & Son, £720 15s. 9d., and took from stock Goods value £220 10s. 6d., for a joint speculation with S. Singleton and D. Davis, profits divisible equally. Received S. Singleton's and D. Davis's shares of speculation. Paid Charges and Expenses, £72 10s. 6d. Sold Joint Account goods for Cash, £1,220. Sent sight draft to Martin & Son. Charged as manager, 5 per cent Commission on sales. Rendered statements to Singleton and Davis with cheques for the amounts respectively due to them. Write up the subsidiary books and show the Ledger Accounts.

JOURNAL

	Dr. £	s.	d.	Cr. £	s.	d.
Joint Account	720	15	9			
To Martin & Son . . .				720	15	9
For goods bought for a joint speculation with S. Singleton and D. Davis.						
Joint Account	220	10	6			
To Goods on Joint A/c . .				220	10	6
For goods taken from stock for a joint speculation with S. Singleton and D. Davis.						
Joint Account	61	–	–			
To Commission . . .				61	–	–
5% on sale of goods, £1,220, for the joint speculation with S. Singleton and D. Davis.						

CASH BOOK

Dr. | *Cr.*

Dr.	£	s.	d.	Cr.	£	s.	d.
To S. Singleton . . .	313	15	5	By Joint A/c . . .	72	10	6
„ D. Davis	313	15	5	„ Martin & Son . . .	720	15	9
„ Joint Account . . .	1,220	–	–	„ S. Singleton . . .	362	3	2
				„ D. Davis	362	3	2

LEDGER

MARTIN & SON

Dr. | *Cr.*

Dr.	£	s.	d.	Cr.	£	s.	d.
To Cash . . .	720	15	9	By Joint A/c . .	720	15	9

JOINT ACCOUNT

Dr. | *Cr.*

Dr.	£	s.	d.	Cr.	£	s.	d.
To Martin & Son .	720	15	9	By Cash . . .	1,220	–	–
„ Goods on Joint A/c	220	10	6				
„ Cash (Expenses) .	72	10	6				
„ Commission . .	61	–	–				
„ Balance (profit)—							
S. Singleton ⅓ .	48	7	9				
D. Davis ⅓ . .	48	7	9				
Profit and Loss ⅓ .	48	7	9				
£	1,220	–	–	£	1,220	–	–

Dr. S. SINGLETON *Cr.*

		£	s.	d.			£	s.	d.
	To Cash . .	362	3	2		By Cash . . .	313	15	5
						„ Joint A/c (½rd profit) . .	48	7	9
		£362	3	2			£362	3	2

Dr. D. DAVIS *Cr.*

		£	s.	d.			£	s.	d.
	To Cash . .	362	3	2		By Cash . . .	313	15	5
						„ Joint A/c (½rd profit) . .	48	7	9
		£362	3	2			£362	3	2

Dr. GOODS ON JOINT ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
	To Trading A/c . .	220	10	6		By Joint A/c . .	220	10	6

Dr. COMMISSION *Cr.*

		£	s.	d.			£	s.	d.
	To Profit and Loss .	61	–	–		By Joint A/c . .	61	–	–

Dr. TRADING ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
						By Goods on Joint A/c	220	10	6

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

							£	s.	d.
						By Joint A/c . .	48	7	9
						„ Commission . .	61	–	–

Example 2. On 1st Feb., L. Wilson bought Goods value £620 and consigned them to D. Bowden as a joint speculation, profits being divisible equally. On the same date he paid Carriage and Freight, £37 10s. 6d.; Insurance, £13 13s., and drew on Bowden at two months for £310 on account, discounting the bill on 4th Feb., for £307 8s. 4d. On receipt of the Goods on 1st March, Bowden paid Dock Dues and Cartage, £16 8s. 4d., and Government Duty, Insurance, etc., £28 17s. 6d. On 31st July, Wilson received an Account

Dr. JOINT CONSIGNMENT *Cr.*

Date	Particulars	Mths.	Interest £	s.	d.	Amount £	s.	d.	Date	Particulars	Mths.	Interest £	s.	d.	Amount £	s.	d.
19..									19..								
Feb. 1	To Goods	6	15	10	–	620	–	–	June 30	By Gross Proceeds of Sale of Goods	1	3	19	8	955	12	6
" 1	" Carriage and Freight	6		19	–	37	10	6	July 31	" Interest					3	19	8
" 1	" Insurance, etc.	6		7	–	13	13	–									
" 4	" Discount on Bill	6		1	6	2	11	8									
Mar. 1	" Dock Dues and Cartage	5		6	8	16	8	4									
" 1	" Govt. Duty & Insurance	5		12	1	28	17	6									
June 30	" Storage	1		2	1	25	–	–									
" 30	" Sundries, Brokerage, & Expenses of Sale	1		5	2	62	–	–									
July 31	" Interest					18	3	6									
" 31	" Balance (Profit)— L. Wilson ½ £67 13 10; D. Bowden ½ 67 13 10					135	7	8									
						£959	12	2							£959	12	2

NOTE 1. Interest at 5 per cent per annum for so many months is found by the following rule: "Call the pounds pence, multiply by the number of months, and the result will be the required Interest." Thus, 620d. = £2 11s. 8d.; £2 11s. 8d. × 6 = £15 10s.

NOTE 2. Alternatively, as interest is being brought into account on amounts advanced and received, the interest on the bill discounted would have to be borne by Wilson personally.

In Wilson's Ledger.

Dr. JOINT CONSIGNMENT WITH D. BOWDEN *Cr.*

Date	Particulars	Mths.	Interest £	s.	d.	Amount £	s.	d.	Date	Particulars	Mths.	Interest £	s.	d.	Amount £	s.	d.
19..									19..								
Feb. 1	To Goods . . .	6	15	10	–	620	–	–	Feb. 1	By Bill Receivable at 2 m/d	4	5	3	4	310	–	–
„ 1	„ Carriage and Freight .	6		19	–	37	10	6	July 31	„ Interest . . .					5	3	4
„ 1	„ Insurance . . .	6		7	–	13	13	–	„ 31	„ Balance (due from Bowden) c/d . .					443	3	2
„ 4	„ Discount on Bill . .	6		1	6	2	11	8									
July 31	„ Interest . . .					16	17	6									
„ 31	„ Profit and Loss A/c (share of profit) .					67	13	10									
						£758	6	6							£758	6	6
July 31	To Balance (due from Bowden b/d . .					443	3	2	July 31	By Cash					443	3	2

In Bowden's Ledger.

Dr. JOINT CONSIGNMENT WITH L. WILSON *Cr.*

Date	Particulars	Mths.	Interest £	s.	d.	Amount £	s.	d.	Date	Particulars	Mths.	Interest £	s.	d.	Amount £	s.	d.
19..			£	s.	d.	£	s.	d.	19..			£	s.	d.	£	s.	d.
Feb. 1	To Bill Payable, due 4 Apr.	4	5	3	4	310	–	–	June 30	By Gross Proceeds of Sale of Goods	1	3	19	8	955	12	6
Mar. 1	„ Dock Dues and Cartage	5		6	8	16	8	4	July 31	„ Interest					3	19	8
„ 1	„ Govt. Duty & Insurance	5		12	1	28	17	6									
June 30	„ Storage	1		2	1	25	–	–									
„ 30	„ Sundries, Brokerage, & Expenses of Sale	1		5	2	62	–	–									
July 31	„ Interest					6	9	4									
„ 31	„ Profit and Loss A/c (share of profit)					67	13	10									
„ 31	„ Balance (due to Wilson) c/d					443	3	2									
						£959	12	2							£959	12	2
July 31	To Cash					443	3	2	July 31	By Balance (due to Wilson) b/d					443	3	2

Sales showing that on 30th June the Goods had realized gross £955 12s. 6d., and that Bowden's disbursements made on the same date were Storage £25, Sundries, Brokerage, and Expenses of Sale, £62. Bowden also enclosed a sight draft for the amount due at 31st July. Prepare a general statement showing the result of the venture, and write up the accounts in Wilson's and Bowden's Ledgers respectively. Interest is to be brought into account at the rate of 5 per cent per annum, and may be calculated by months instead of days.

Example 3. B. Black and W. White were partners in the following scheme, Black to take five-ninths and White four-ninths of the profits. They agreed to guarantee the subscription at par of 85,000 shares of £1 each in a Company, and to pay all expenses up to allotment, in consideration of the company issuing to them 11,500 other shares fully paid. Black provided cash for the following expenses: Registration and Fees, £114; Advertising, £2,175; Printing, Stationery, and Prospectuses, £225. White supplied cash for remainder: Rent of Office, £40; Secretary, etc., £95; Petty Cash and Sundries, £25 17s. 3d.; Stamps, £78; Solicitor's Charges, £237. Applications fell short of the 85,000 shares by 3,500 shares, and by arrangement White found the cash in full for that number on the Joint Account. The Company handed Black and White the 11,500 shares. Black and White then sold all their shares at 16s. 3d. each, less brokerage 1½d. per share. White received the net proceeds of 5,000 shares, and Black the net proceeds of the remainder. Make out the Joint Account, and also the separate accounts of the partners, showing their respective shares of the profit, and the amount due from one to the other in settlement.

Dr. JOINT VENTURE *Cr.*

	£	s.	d.		£	s.	d.
To Black—				By Black—			
Registration and Fees	114	–	–	Proceeds of Sale of 10,000 Shares @ 16s. 1½d. net	8,062	10	–
Advertising	2,175	–	–				
Printing and Prospectuses	225	–	–	„ White—			
„ White—				Proceeds of Sale of 5,000 Shares @ 16s. 1½d. net	4,031	5	–
Rent of Office	40	–	–				
Secretary, etc.	95	–	–				
Petty Cash and Sundries	25	17	3				
Stamps	78	–	–				
Solicitor's Charges	237	–	–				
„ White—Cash for shares not taken up	3,500	–	–				
„ Balance (profit):							
Black 5/9ths	3,113	5	5				
White 4/9ths	2,490	12	4				
	£12,093	15	–		£12,093	15	–

Dr. B. BLACK **Cr.**

	£	s.	d.		£	s.	d.
To Joint A/c—Proceeds of Sale of 10,000 Shares @ 16s. 1½d. net .	8,062	10	–	By Joint A/c—Registration and Fees . .	114	–	–
				Advertising .	2,175	–	–
				Printing and Prospectuses .	225	–	–
				„ Joint A/c—5/9ths of Profit .	3,113	5	5
				„ Balance (due to W. White) c/d .	2,435	4	7
	£8,062	10	–		£8,062	10	–
To Balance (due to White) b/d .	2,435	4	7				

Dr. W. WHITE **Cr.**

	£	s.	d.		£	s.	d.
To Joint A/c—Proceeds of Sale of 5,000 Shares @ 16s. 1½d. net	4,031	5	–	By Joint A/c—Rent of Office .	40	–	–
„ Balance (due from B. Black) c/d . . .	2,435	4	7	Secretary, etc. .	95	–	–
				Petty Cash and Sundries . .	25	17	3
				Stamps . .	78	–	–
				Solicitor's Charges . .	237	–	–
				„ Joint A/c—Cash for Shares not taken up .	3,500	–	–
				„ Joint A/c—4/9ths of Profit . .	2,490	12	4
	£6,466	9	7		£6,466	9	7
				By Balance (due from B. Black) b/d . . .	2,435	4	7

QUESTIONS ON CHAPTER V

A

1. What is meant by an Outwards Consignment?
2. Explain the following terms: Consignor, consignee, commission.
3. What is the difference between a Consignment and a Sale of Goods?
4. What is the difference between a Consignment and Goods on Sale or Return?
5. How are consignments distinguished when they are very numerous?
6. Explain the use of a *pro forma* invoice in connection with consignments.
7. What are the usual expenses in connection with a Consignment Outwards, and how are they treated (*a*) when paid, (*b*) when not paid?
8. What is meant by an Advance on Consignment, and how should it be treated in the books?
9. Explain the terms, "bills drawn against consignments," "del credere commission."
10. What is an Account Sales, and what entries are necessary in the books when one is received? What further steps will be necessary if the Account Sales is rendered in currency?
11. How and when is a Consignment Account balanced, and when does it appear on the Balance Sheet?

B

1. Define a Consignment Inwards. How does it differ from a Consignment Outwards?

2. Explain the difference between a Consignment Inwards and (*a*) a Purchase of goods, (*b*) an ordinary Sale of Goods on commission.

3. What two methods are there of treating an Inwards Consignment? Outline them briefly.

4. Supposing part of an Inwards Consignment is taken by the consignee for his own use, how should it be dealt with in his books?

5. How does the consignee recoup himself for his expenses connected with the consignment, and how does he obtain his commission?

6. When a consignee renders an Account Sales, what entries will be necessary in his books? How is an Advance on Consignment treated in his books?

7. Define a "Joint Adventure." What does it consist of?

8. What advantages are there in a joint adventure over a speculation on one's own account?

9. What methods of procedure are there in dealing with joint ventures from a book-keeping point of view? Outline briefly the most usual one.

10. When goods are taken from one's own stock for the purpose of a joint adventure with others, how should they be dealt with in the books?

11. When different persons enter into a joint speculation, and each one takes some part in the transactions connected with it, how is the profit of the venture ascertained, and how is a final settlement between the parties effected?

EXERCISE V

1. Richard Random and Sons shipped goods to Paul Gold, their agent at Capetown, on 1st September, and sent therewith a *pro forma* invoice for £578 (goods £500, freight £60, and insurance £18). On 28th October, Paul Gold sent home an Account Sales, from which it appeared that a portion of the goods had realized £460; and, deducting expenses £10 and commission £25, he enclosed a draft at three months for the balance. The stock remaining unsold amounted, at invoice prices plus expenses, to £280. On 2nd November, he sent home another Account Sales, which showed that the balance of the consignment had realized £320; which, less £8 expenses and £10 commission he remitted by a three months' draft.

Show how the above transactions should appear in the books of Richard Random and Sons. (*Royal Society of Arts.*)

2. What is an "Account Sales"? In what particulars (if any) does it differ from a "Consignment Account"?

On 15th October, Delmaine Bros., London, shipped to Donnison & Sons, Port Elizabeth, 60 cases of mixed Sheffield goods. These goods were invoiced *pro forma* at £32 10s. per case.

The London payments in connection with this consignment were: Insurance, £10 12s.; freight, £54 12s.; sundry charges, £3 15s.

The payments made by Donnison & Sons, in South Africa, were: Storage, £16 12s.; Landing charges, £6 10s.; Insurance, £2 11s.

On 15th December, Donnison & Sons sold 30 cases of goods at £45 per case; on 17th December, 25 cases at £50 per case; and on 19th December, the balance of the consignment at £51 per case. All the above sales were effected for prompt cash. A commission is payable to Donnison & Sons of 2 per cent on all sales plus 1½ per cent *del credere* commission.

On 1st November, Delmaine Bros. drew a Bill on Donnison & Sons for £1,000. This draft was duly accepted.

Prepare an "Account Sales" showing the result of the above consignment, and show how the transactions would appear in the books of Delmaine Bros. (*London Chamber of Commerce.*)

3. J. Moss & Co., London, consign goods to the cost amount of £1,500 to their agent, J. Solomon, Hong Kong, on which they pay freight, insurance,

and charges £55, drawing on him at 90 days for £1,300. They discount the bill at Lloyds Bank, being charged £15 therefor. They receive Account Sales of the consignment for £1,729, less Agent's Commission, etc., £71, and a draft on the Bank of Hong Kong for the balance.

Record the above transactions in the books of J. Moss & Co. (*London Chamber of Commerce.*)

4. Isaac Solomon of London, Wine and Spirit Exporter, shipped to Davis & Co., of Bombay, 320 cases of Brandy at 23s. 6d. per case, f.o.b. He disbursed by way of Insurance £4 17s. 6d., and £8 15s. for Freight, forwarding by mail, in due course, Invoice amounting to £389 12s. 6d.

The goods were sold at an average price of 18⅜ Rupees per case. The charges were, in respect of Commission ⅜ths Rupee per case, 32 Rupees for delivery, rent, etc., and 8 Rupees for postage, etc. Davis & Co. sent forward Account Sales with a Draft at sight (sterling) on London, taking the Rupee at 1s. 6⅜d. Make out the Account Sales, and show how the respective entries would appear in Solomon's Books. (*London Chamber of Commerce.*)

5. Prepare the necessary Journal Entry for the transaction below and post same to Ledger—

Invoice of chain shipped per s.s. *Falcon*, London to Bombay, via Suez Canal, and consigned to Messrs. Larrissa & Co., Bombay, for sale and returns, by Messrs. Johnson, Gibbs & Co.

◇C	6 short link chains, weighing 155 cwt. 2 qr. at 12s. per cwt.		£93 6 –
Bombay	*Charges*		
1/6	Freight on 7 tons 15 cwt. 2 qr. 0 lb. at 30s. and 10 per cent primage	£12 16 7	
	Bill of Lading and Postages	2 6	
	Insurance on £110 at 10s. and Duty	11 6	
			13 10 7
			£106 16 7

E. & O.E.

London, 1st January, 19.. (*London Chamber of Commerce.*)

6. Referring to the preceding question, the following is a copy of the Account Sales rendered by the Consignee. Prepare the necessary Journal and Ledger entries in the books of both Consignor and Consignee.

Account Sales of chains ex. s.s. *Falcon* from London, sold by the undersigned Larrissa & Co. on account and at the risk of Messrs. Johnson, Gibbs & Co.

◇C	6 chains weighing 155 cwt. 2 qr. 0 lb. at Rs. 11 per cwt.		Rs. 1708 11 8
	Charges		
Bombay	Import Duty *ad valorem*, Rs. 1708 11 8 at 1 per cent	17 1 4	
1/6	Wharfage, Landing, Storing, Delivery, Rent, Fire Insurance, Commission, and *del credere* at 10 per cent	170 13 11	
			187 15 3
			Rs. 1520 12 5

E. & O. E.

Bombay, 15th February.

Remitted by Demand Draft on London at exchange of 1s. 4d. . £101 7 8

(*London Chamber of Commerce.*)

7. Messrs. Lux and Lucifer, Birmingham, consign on 1st February, to M. Marconi, of Milano, 500 " Radiant " Electric Lamps, invoiced at 18s. each, and pay Freight £5 18s. 6d., and Insurance £2 15s. One hundred and twenty-five lamps are damaged and rendered worthless by storm, and M. Marconi receives £72 in settlement from underwriters. He sells 250 Lamps for £240, and on 4th April sends Account Sales and Bankers' Draft for balance due to the Consignors, after charging his Agency Expenses £5 10s., and Commission £15 12s. Give the Accounts as they would appear in Lux and Lucifer's Ledger. (*West Riding of Yorkshire.*)

8. C and D buy on joint account 1,000 Mining Shares at 30s., plus expenses £10. C contributes one-third and D two-thirds of the price (all the monies passing through a Joint Banking Account). Six hundred Shares are sold at 32s. 6d., less expenses £7 5s., and 310 Shares are sold at 31s. less £5 expenses. They divided the Balance of the Shares at cost price, and also any Profit or Loss, in proportion to their original contributions. Prepare Accounts showing the position at the close of the venture. (*West Riding of Yorkshire.*)

9. Black and White entered into partnership upon equal terms as to profits or losses of the venture, for the purpose of perfecting an invention with a view to its sale to a syndicate. No interest was to be paid upon Partners' Capital prior to division of results. Black contributed £300 and White £150 to cover the cost of experiments, White giving his personal services without salary.

Upon the completion of the necessary experiments the purchases and expenses were found to have amounted to £478. Black then advanced a further £50, and White paid £22 for patent fees, etc.

The invention was sold by them to a Syndicate for £1,000 in cash, which was paid to them, and 1,000 fully paid shares of £1 each in the Syndicate, and these were duly allotted.

Upon dissolving the partnership, White arranged to take over the stock of materials at an agreed valuation of £36, and undertook to discharge outstanding liabilities (if any). Black consented to take over the 1,000 fully paid shares at an agreed valuation of £50.

Prepare the accounts necessary upon the dissolution of partnership. (*Royal Society of Arts.*)

10.

			£	s.	d.
Jan.	4.	Received from A. Lemoine, Bordeaux, invoice of wine shipped on joint account (profit or loss to be divided equally)	254	12	6
„	7.	The shipment of wine arrived. Paid dock charges on same	4	6	2
„	9.	Paid Custom House duties on shipment of wine. .	50	–	–
„	10.	Sold to J. Carey part of the shipment of wine . .	138	10	6
„	14.	Admitted J. Carey's claim for damaged goods, part of those sold him on 10th inst.	4	8	4
„	16.	Sold remainder of shipment of wine, for Cash . .	237	4	6
„	16.	Purchased Bill on Bank of France for net proceeds, less our share of Profit. Remitted same to A. Lemoine, with account sales of the shipment.			
„	30.	Paid claim of the purchaser of the Wine sold on 16th inst., for damaged goods	8	3	6

Enter the above in Journal and Cash Book, and show the Joint Account and Lemoine's Account in the Ledger. (*Civil Service, Second Division Clerks.*)

11.

			£	s.	d.
Jan. 5.	Shipped per s.s. *Ravenna* to Hong Kong, consigned to Ah Hee & Co., on equal shares with them as follows—				
	Goods (chemicals)	£600 13 –			
	Goods (sundries)	98 1 8			
		£698 14 8			
	Our Commission	17 9 4			
	Insurance	7 10 –			
	Freight	26 8 9			
			750	2	9
„ 6.	Drew Bill at 90 d/s for $5,455.54 on Ah Hee & Co., and sold it with documents attached to Hong Kong and Shanghai Bank at 2/9, receiving Cheque for		750	2	9
„ 10.	Paid by Cheques—				
	Royal Exchange Corporation (for insurance on *Ravenna*		7	10	–
	Peninsular and Oriental S.N. Co. (freight on ditto)		26	8	9
June 4.	Received from Ah Hee & Co., Account Sales of Goods per *Ravenna*—				
	Gross proceeds	$6,872.52			
	Charges	326.17			
	Their Commission	171.82			
„ 5.	Drew Bill on Ah Hee & Co. for $460, our share of net proceeds of shipment per *Ravenna* and sold it to Hong Kong and Shanghai Bank at 2s. 8½d., receiving Cheque		62	15	5

Record the above in Journal and Cash Book, and show the Consignment Account in the Ledger. (*Civil Service, Second Division Clerks.*)

12. On the 1st July, our one-third share of Hansard Estate in Jamaica stood indebted to us £3,175 6s. 2d. On the 2nd August our partners in Jamaica, J. and W. Shirley, advise us that they have shipped 60 casks sugar, per *Minerva*, to Liverpool, which we have insured with the Globe Assurance Co., at £1,700 at £9 9s. per cent, policy 5s. 6d. per cent—£165 6s. 6d.—and we charge commission £8 10s. 0d. They also advise that they have shipped 20 hogsheads sugar, per the *Neptune*, to London, for sale, which we have also insured with the Globe Assurance Co., at £600 at £5 5s. per cent, policy 33s.—£33 3s. 0d. Our commission, £3. On the 17th, we accepted J. and W. Shirley's two drafts; one for £220 14s. 0d., due 2nd October, the other £170, due 12th October, on their own account. On the 18th we pay J. Gray £173 15s. 0d. on account of the estate. On the 20th we sell sundry persons 25 hogsheads sugar, which had formerly been on hand, the net proceeds of which amount to £730 16s. 3d. On the 23rd we paid Smith £42 14s. 0d. On the 10th September we accept on Shirley's own account their draft £120, due 2nd November. On the 20th we ship goods, per *Sailor Prince*, for account of this estate, which amount, with charges, commission, and insurance, to £537 6s. 2d., and on Shirley's own account goods to the amount of £440 1s. 0d. On the 25th the agents in London inform us of having sold the 20 hogsheads, and enclose Bills for the proceeds, £625 2s. 0d. Required the best method to exhibit these transactions in the plainest and most satisfactory manner. (*Lancashire and Cheshire Union.*)

13. The ship *Enid*, value £20,000, is owned as follows—

W. James owns one-tenth.	Morrison & Co. owns two-fifths.
F. Edwards owns one-fifth.	Peters & Son own three-tenths.

She is loaded with a cargo, part of which, valued at £6,000, is shipped on owners' account, and on the remainder, value £2,000, freight amounting to

£100 is paid in cash. The owners' share of the cargo is insured for the outward voyage for £7,000, at a premium of 1 per cent, and the ship is insured for the outward and homeward voyages for £22,000, at a premium of 1¼ per cent (both premiums being paid in cash). The outward voyage is made in safety, and the owners' share of the cargo is sold for £7,000; and for the return voyage the ship is loaded with a cargo (not on owners' account), the freight on which amounts to £800. Bills for this amount and for the net proceeds of the cargo sold are safely remitted home by the consignee. On the voyage back the ship is lost, and the sum for which she was insured is paid, all but £3,000, which is unpaid owing to the bankruptcy of one of the underwriters. This amount cannot be recovered, and must be written off as a bad debt.

Make the Journal entries required for the whole of the transactions recorded, and draw up a statement showing the financial position of the respective owners after the accounts are closed. (*Civil Service, Second Division Clerks.*)

14. On 1st January, 19.., H. Brown & Co. consigned to Hertz & Co., of Hamburg, per s.s. *Fortuna*, goods valued *pro forma* at £357 11s., incurring expenses as follows: shipping charges, £6 10s. 0d.; insurance, £1 2s. 6d.; freight, £7 12s. 6d. On 17th February, H. Brown & Co. received from Hertz & Co. an Account Sales, showing that the consignment had realized £540 gross, and that their expenses and charges were £41 9s., for which they enclosed a sight draft on the Anglo-Foreign Bank, Ltd. Say in what book you would record the dispatch of this consignment and make the entry. Also, make the account as it would appear in the books of H. Brown & Co. (*L.C.C.*)

15. The two following Statements represent a consignment of goods sent out by a London House to Bombay, with the account sales of such goods as rendered by the Bombay House. You are asked to make the necessary Journal and Cash Book entries in the books of the two houses, and in the case of the English House to show the Net Profit upon the transactions.

Messrs. Ardkashir & Byjamji, Bombay. London, 1*st January*.

In Consignment from Faudel Phillips & Sons.

			£	s.	d.
S		8 Cases various, shipped per s.s. *Ballarat*—			
	1 & 2 = 2	cases contg. (2′ 9″ × 3′ 3″ × 3′ 6″ = 31′ 3″ each case) 500 pieces English Art Needlework and Traced Goods, etc. (as per specification)	75	10	6
	3 & 4 = 2	cases, each contg. 25 only (5′ 4″ × 3′ 0″ × 2′ 4″ = 37′ 4″ each) 50 only Brown Cowhide Gladstone Bags, with Shoes and Clips, 20 in. at 10½d. in. = 17/6 each .	43	15	–
	5 = 1	case contg. (5′ 7″ × 3′ 1″ × 2′ 6″ = 43′ 0″) 30 only Brown Cowhide Kit Bags, 18″ at 10½d. per in. = 15/9 each . . .	23	12	6
	6/8 = 3	cases, each contg. 38 spdls. (2′ 8″ × 2′ 10″ × 40″ = 30′ 3″ each) 90 spdls. "Peacock Brand" Fingering Yarn, 2-, 3-, and 4-ply, in Black, White, Clericals, Drabs, Heathers, per spdl. of 6 lb. at 20/6 . . .	92	5	–
			235	3	–

	£	s.	d.	£	s.	d.
8 Packing Cases, expenses and materials . .	£2	15	–			
8 „ „ cartage to Docks and Shipping	1	–	–			
Marine Insurance on £250 at 1¼ per cent . .	2	10	–			
Freight prepaid at 40/- per ton of cubic feet .	13	10	11			
				19	15	11
E. & O. E.				£254	18	11

Total measurements, 270 ft. 11 in.

Account Sales of Goods sold by
Ardkashir & Byjamji, Bombay

For Account of Faudel Phillips & Sons,
Newgate Street, London, E.C.

13th March. Bombay.

					Rs.	as.	pcs.
S		ex Cases.					
	1	500 pcs. Embroidered Goods, etc., realizing in all (as per detail A/c)			1,600	–	–
	2/4	50 only Gladstone Bags . .	20	Rs. 17/8	875	–	–
	5	30 „ Kit Bags . . .	18	Rs. 16/–	480	–	–
	6/8	90 Spdl. Yarn "Peacock Brand"		Rs. 22/–	1,980	–	–
					4,935	–	–

Charges Paid Out, etc.	Rs.	as.			
Landing, Haulage, Sundries	18	–			
Commission, 5%	246	12			
Duty, etc., 5%	246	12			
Bank Brokerage, $\frac{1}{16}$%	2	12			
			514	4	–
			Rs. 4,420	12	–

E. & O. E.

Draft forwarded as Rs. 1/4 = £294 14/4.

(*London Chamber of Commerce.*)

16. On 1st January, W. Smith, of London, consigned per s.s. *Dilwara*, to B. Ready, at Cape Town, 500 tons of iron, invoiced at £4 per ton. B. Ready paid charges amounting to £20 16s. 8d. On 20th February, Ready sold 400 tons at £4 10s. per ton, and forwarded to W. Smith a sight draft with account sales. B. Ready's commission was 2½ per cent. Show the above transactions as they would appear in the books of Smith. Also prepare account sales and form of draft. (*London Chamber of Commerce.*)

17. 4th February, received the following letter—

Manila, 20*th December*, 19..

DEAR SIRS,—Herewith I hand you invoice of shells shipped, as arranged, for sale on Joint Account of your firm and myself, and I have drawn on you for amount at 4 months' sight through the Chartered Bank. Freight and Insurance forward. Yours truly,

W. A. SIMS.

(Enclosure in foregoing)

Invoice of 159 cases of Shells shipped by the undersigned per s.s. *Ajax*, Capt. Rogers, and consigned to Messrs. Burt & Co. for Sale on Joint Account of them and W. A. Sims.

		£	s.	d.
W.A.S.—301-362.	62 cases Pearl Shells, 315 cwt., at 6/8 .	105	–	–
W.A.S.—363-397.	24 cases Cameo Shells, 204 cwt. at 5/- .	51	–	–
W.A.S.—398.	1 case Turbo, 7 cwt. at 7/- . . .	2	9	–
W.A.S.—399-439.	40 cases Fancies, 164 cwt. at 8/- . .	65	12	–
W.A.S.—440-481.	22 cases Museum Specimens, value . .	75	–	–
		£299	1	–

				£	s.	d.
Feb.	4.	Accepted Sims's bill, presented by Chartered Bank (No. 319)		299	1	–
„	4.	Paid Chartered Bank, by cheque, for freight, etc., of shells		93	7	6
Mar.	1.	Retired Sims's bill (No. 319) and obtained Documents for Sims's consignment—				
		Cheque to Chartered Bank .	£297 11 2			
		Discount	1 9 10			
Mar.	10.	Sold at public auction, by Watts & Co., part of Sims's consignment, viz.: Pearl Shells—				
		51 cases, 255 cwt., at 14/-		£178	10	–
		10 „ 54 cwt., at 12/-		32	8	–
		1 case, 6 cwt., at 7/-		2	2	–
		Cameo Shells—				
		34 cases, 204 cwt., at 8/-		81	12	–
		1 case Turbo, 7 cwt., at 6/-		2	2	–
		40 cases Fancies, 164 cwt., at 8/6		69	14	–
				£366	8	–
		Auctioneer's commission, £9 3s. 2d.				

			£	s.	d.
Mar.	17.	Received of Watts & Co. by cheque	357	4	10
„	20.	Sold for Cash part of 22 cases Museum Shells to S. Stone for	35	–	–
„	24.	Paid City Scavenger for taking away remainder of Museum Shells from Sims, which are worthless .		7	6
„	26.	Sent Account Sales of Shells, per *Ajax*, to W. A. Sims. Our Commission, £9 16s. 1d.			

Record the above in Journal and Cash Book, and show the Joint Account in the Ledger. (*Civil Service, Second Division Clerks.*)

18. John Black and Edward Thompson agree to import Swedish timber into this country. On 1st May, they open a Banking Account under the style of " Black and Thompson " for £2,400, towards which Black contributes £1,400 and Thompson £1,000, they dividing Profits or Losses *pro rata* to their cash contributions (say $\frac{7}{12}$ths and $\frac{5}{12}$ths respectively). They remit to their agent in Sweden, £1,800, to pay for the timber purchased out there, and, later on, a further £100 in settlement of his Account. The Freight, Insurance, and Dock charges are all paid on this side, and, together amount to £400. On 31st December, the various sales have realized £2,400 net, which enables them to repay themselves (taking no account of Interest) the cash respectively advanced by them on 1st May. The venture is then closed by Black taking over the balance of timber unsold for £380, and for which he pays a cheque into the Banking Account. How much Cash Balance does this leave for final division by way of Profit, and how is the same apportioned between Black and Thompson as their respective share of Profit thus realized on the venture? (*Institute of Bankers.*)

19. Make entries showing how the transactions detailed below are recorded in the books of the " consignor " and " consignee " respectively.

J. M., of Hull, consigns goods to the amount of £1,200 to his agent, L. R., of London, on which J. M. pays all outward charges, amounting to £50. J. M. draws on L. R. at 60 days for £1,000. Subsequently, L. R. sends an A/S to his principal, indicating that the consignment yielded £1,700, less expenses and commission, which were £85.

20. Brown, Jones, and Robinson operate in a tripartite account in pig-iron, and purchase 10,000 tons at 48s. per ton, say, £24,000, and for which they contribute as follows—

Brown finds cash for		£7,450
Jones gives his acceptance at 3 months for . .	£8,000	
The discount on which is	100	
		7,900
And Robinson the balance in cash		8,650

Interest is credited to each adventurer at the rate of 5 per cent per annum from date the money is found until final settlement, the Net Profit or Loss (after payment of the above interest) being allocated among them *pro rata*, to the amount of capital each of them originally brings in. The pig-iron is held for six months, and then only realizes £21,500, the venture resulting in a loss of £2,500. Divide up this loss among the three, first crediting each adventurer with the interest due to him under the above arrangement, and carry out the above conditions. (*Institute of Bankers.*)

21.

	£	s.	d.
Lewis & Co. sell and ship to Armstrong & Sons, of Iquique, sundry goods invoiced as costing	1,004	11	8
The freight, insurance, and dock charges were . . .	89	6	4
„ buying and shipping commission charged was . .	30	2	–
Total of Invoice was . .	£1,124	–	–

Lewis & Co. drew on Armstrongs for that amount and secured an advance of £650 from the bankers through whom they were forwarding the documents.
The draft was duly accepted.
At due date of draft Armstrongs paid one-half and gave a bill for the balance, plus 6 per cent interest per annum for 6 months.
The bankers were repaid their advance by Lewis & Co., and the extended bill was met at maturity by Armstrongs.
Frame Journal entries to record properly the whole of the above transactions in the books of—

1. Lewis & Co.
2. Armstrong & Sons.

Narrations are essential. (*Civil Service, Second Division Clerks.*)

22. Make out for Stephens & Son, London, an Account Sales of 65 casks of fine Lard marked "A1," sold at 42s. 6d. per cwt., gross weight 185 cwt. tare 28 cwt. 2 qr. The Lard was shipped per s.s. *Rameses* from Williams & Co. of New York. The following charges were incurred—

	£	s.	d.
Freight as per Bill of Lading	15	15	8
Marine Insurance £350 at 25s. per cent, policy stamp 1s.			
Customs Dues		15	6
Unloading, Weighing, etc.	5	12	6
Expenses of Sale	2	10	8
Fire Insurance	13	13	–
Brokerage 7½ per cent.			
Commission 3 per cent.			

23. R. Righton received from L. Affleck, of Montreal, 600 barrels of fine Flour at 19s. 3d. per barrel. Righton paid Freight £27 10s., Insurance £7 15s. 6d., Storage £8 13s. 10d. He sold 325 barrels at 27s. 3d., and 275 barrels at 26s. 2d. per barrel respectively. He charged a Commission of 2½ per cent and forwarded a sight draft for amount due. Record the above transactions in R. Righton's books.

24. On 1st March, W. Williams, a merchant carrying on business in London, consigned to his agent, S. Siegfried, of Hamburg, 1,055 tons of Iron, invoiced *pro forma* at 56s. 6d. per ton. On 1st May he received an Account Sales showing that the whole of the Consignment had realized 69,420 marks. Siegfried's disbursements amounted to 1,425 marks, and his commission was 2½ per cent on the gross proceeds. Siegfried remitted a bill in currency at 2 m/d for the amount due. The Carriage, Cartage, Freight, and Insurance paid by Williams in connection with the Consignment amounted to £120. Assume the average value of the mark to be 1s., but that on the date the bill was paid the rate of exchange was 20.35 marks to the £ sterling. Record the above transactions in W. Williams' books.

25. Robson and Day entered into a joint speculation with the object of buying at sales any cheap rolling stock or machinery and re-selling same. Purchases, sales, receipts, and disbursements are made, sometimes by Robson and sometimes by Day. They had no joint banking account, but each party worked the transactions through his own business. It was agreed that profits should be shared equally, and that interest at 5 per cent per annum should be reckoned on all cash received and paid. The following were the transactions—

Jan.	5.	Robson bought locomotive for £620.
,,	15.	Robson paid carriage on same £15.
Mar.	18.	Day paid storage for same £1 10s. 6d.
,,	21.	Day paid insurance 12s. 6d.
June	4.	Day paid repairs £12 8s. 6d.
,,	28.	Day sold locomotive for £710.
July	4.	Day bought 520 tons rails at £3 5s. per ton.
,,	27.	Robson paid landing and transit charges £30.
Aug.	28.	Robson paid storage £3 10s. 6d.
Sept.	3.	Day sold rails at £3 10s. per ton.
,,	8.	Robson bought 2 cranes at £55 each.
,,	15.	Robson sold cranes for £125.

Raise accounts for the Joint Venture, and for both parties, and show how matters stand on 30th September.

26. Sykes & Son consigned Goods value £850 to Bailey & Co., their Belfast agents, on 21st February, and drew on them at 4 m/d for that amount. They discounted the bill on the same date, being charged £14 3s. 4d. for discount. On 31st March, Bailey & Co. advised that they had paid £28 13s. 9d. for Freight and Landing Charges on account of the Consignment. On 31st May, Bailey & Co. remitted £450 on account of proceeds, and on 31st August they forwarded an Account Sales showing that the goods had realized gross £1,056, and charging their Commission of 3 per cent on that amount. Sykes & Son retired Bailey & Co.'s acceptance at maturity. Record the above transactions in Sykes & Son's books, and show the Ledger accounts.

27. On 21st February, Thomas Ruffles forwarded to Henry Crichton & Son on consignment 25 chests of Indigo at £51 per chest, paying £12 12s. 6d. for Freight. On 18th May he received an Account Sales dated 20th April showing that the Goods had realized £1,246 10s. 8d. gross, and that the following expenses had been incurred—

	£	s.	d.
Dock Dues and Insurance	8	10	11
Cartage	2	15	6
Storage	3	4	7
Commission 3 per cent.			
Del Credere Commission, 2½ per cent.			

and enclosing a bill at three months for the amount due. Record the above

transactions (*a*) in Ruffles' books, (*b*) in Crichton & Son's books. Show also the Account Sales.

28. T. Tohm, of Norway, and F. Friedley, of England, engaged in a joint speculation in timber. On 15th January Tohm contributed £450 and Friedley £550, which amounts were paid into a joint banking account. The following were the transactions—

Jan. 20. Bought cargo from A. Russphy, £724, less 5 per cent discount, and accepted his draft at 3 m/d for the net amount.
„ 23. Paid expenses of loading, £36 15s. 6d.
„ 31. Paid freight to London, £123 14s. 5d.
Feb. 21. Sold Greener & Co. logs £179 12s. 3d., and received cash less 2½ per cent discount.
„ 26. Bought from A. Helfsky, for cash, cargo of timber, net, £1,027.
Mar. 25. Paid shipping charges and freight, £225 10s. 11d.
„ 27. Sold F. Turner deals, net, £420, and received his acceptance at 2 m/d.
April 15. Sold L. Loti timber bought from A. Russphy, £1,472 10s. 6d., and received his acceptance at 1 m/d.

The speculation was closed, and the stock of timber valued at £356 taken over by Friedley at the agreed figure of £356 less 10 per cent. Adjust the accounts between the partners as at 31st May, allowing interest on capital at the rate of 5 per cent per annum, and dividing profits or losses in proportion to capitals.

29. On 1st July, P. Potter, a merchant trading in Edinburgh, consigned to his New York agent, K. Kettlewell, 1,150 tons of Iron, invoiced *pro forma* at 52s. 6d. per ton. He paid Freight and other charges amounting to £175 15s. 9d. On 1st September he received an Account Sales showing that 222 tons had been sold at $15, 300 tons at $14.50, 176 tons at $14.25, and the balance at $14.75. K. Kettlewell deducted his Commission of 3 per cent, and remitted a 60 days' draft in dollars for the balance due. Assume the average value of the dollar to be 4s. 2d., but that on the date of maturity of the bill the rate of exchange was 4.87 dollars to the £ sterling. Record the above transactions in P. Potter's books.

30. On 1st May, B. Bailey had a capital of £3,000, consisting of Cash on "Current" A/c £2,250, and Goods £750. On 2nd May he bought goods, on joint venture with L. Phipps, to the value of £2,000; also transferring his goods for trading under the same venture. L. Phipps contributed £1,500 toward the undertaking, and was to receive a proportional share of the result of the venture. By 31st July, B. Bailey had made a net realization on the sale of goods to the amount of £4,750. The expenses of purchase were 2 per cent of cost of goods bought, and the expenses of sale were 3 per cent of their "sale price." Show the result of the venture as would be recorded in the books of B. Bailey.

REVISION EXERCISE V

1. State briefly the aim and object of good Book-keeping; what systems are at present in use, and whether, and for what reason, any preference should be given to one system over that of others. (*London Chamber of Commerce.*)

2. Give a list of the books in use in the Counting House of a City Warehouseman, and explain the object of each. Name one Book, the keeping of which is of essential importance in a well-organized Commercial House. (*London Chamber of Commerce.*)

3. Give a form of Cash Book, the proper keeping of which will give a maximum of results with minimum expenditure of time and labour. (*London Chamber of Commerce.*)

4. Walter Robinson, who is a slate merchant, has recorded his transactions in the following Books—

(*a*) SALES DAY BOOK, in which all sales to customers have been entered. The sales have been posted in detail to the debit of the customers' personal accounts in the "Sales Ledger."

(*b*) CASH BOOK. Only "Bank" items have been dealt with in this book, and all cash thus received and paid has been duly entered. Cash received from customers has been posted to their credit in the "Sales Ledger." Cash paid to creditors for goods purchased has been posted to their debit in the "Purchases Ledger." With these exceptions, no further posting has been done.

(*c*) PETTY CASH BOOK. This book, used for small cash payments, has been kept in funds by a weekly cheque passed through the "Cash Book."

(*d*) "SALES" and "PURCHASES" LEDGERS, as referred to above.

Statements from creditors and receipts have been kept on a file, but not otherwise dealt with. Except as detailed above, no further record of any kind has been kept by Robinson of his business transactions. Is Robinson's system of book-keeping an efficient one? If not, what alterations or additions will be necessary, in order that he may be in a position to prepare proper annual accounts? (*Royal Society of Arts.*)

5. John James bought Goods of Edward Rhodes, the Invoice value of which amounted to £367 10s. A discount of 7½ per cent was to be allowed off the account. One-half the net sum was to be paid in Cash, and Rhodes was to draw at 3 months upon James for the balance, plus 1 per cent for commission and at 4 per cent for discount. The transaction was carried out, and the Cash was duly paid, but, shortly before the bill fell due, James, on the plea that the Goods were not wholly disposed of, proposed to Rhodes to pay £50 in Cash, to have the present bill withdrawn, and to give his Acceptance for the balance, plus 30s. per cent Commission and 6 per cent Discount. This was agreed to. The £50 was paid in due course, and the second Acceptance met at maturity.

Make the Journal and Cash Book Entries, giving effect to this transaction, and prepare James's Account as it should appear in Rhodes's Ledger, assuming his Books to have been properly kept. (*London Chamber of Commerce.*)

6. Make up a Coal Trading Account (net quantities and moneys) from the following entries. Show the profit made and the shrinkage in weight.

Jan. 1. Stock on hand, net weight, 250 tons at 15s. 6d.
„ 2. Bought 500 truck-loads of 7 tons each, colliery weight of 21 cwt. to the ton, at 6s. 4d. at the colliery.
„ „ Railway charges thereon, at 6s. 10d. colliery weight.
„ 3. Bought cargo, 1,240 tons, colliery weight, at 7s. 2d., f.o.b. Sunderland
„ 15. Freight to London and unloading, £315.
„ 31. Sundry Sales, net weight—
Large, 4,590 at 19s. 6d.
Small, 410 at 4s.
„ 31. Cartage and expenses on Sales, 2s. 3d. per ton.

MEMO. No stock left. (*Chartered Accountants.*)

7. What is the average due date of the following instalments payable under a contract?

13th April . . .	£3,500
11th May . . .	£5,200
12th June . . .	£2,300

Draw a bill to meet the total amount plus interest thereon at 5 per cent at 3 months from the average due date, marking stamp duty on same.

8. George Hargreave commenced business as a builder on 1st January. He owns a gravel pit, from which he obtains material useful to him in executing his building contracts. From the following figures, obtained from his books, you are required to prepare the gravel pit Working Account for the past year to 31st December, so as to enable him to charge the gravel he uses for his various contracts at the cost price per load. The gravel pit is leased to him for 24 years at a rental of £10 a year, and this he has duly paid. The equipment, consisting of the necessary screening machinery, etc., has cost him £552. The wages of the men at the pit for the year have been £247, while supplies to the department, issued from the general stores (as shown by the storekeeper's records) were implements, £43 15s. 6d., coal and coke, £20 5s. 5d., and sundries, £11 11s. 1d. Sales of gravel at the pit to outside purchasers amounted to 1,568 loads at 2s. 6d. per load. Mr. Hargreave has used on his contracts during the year 2,304 loads of gravel, carted from his pit with his own carts, to cover which he has charged his gravel pit Working Account 4½d. a load. In preparing the account you are required to provide for writing off the value of the equipment over the period of the lease, by equal annual amounts; and, as he allows the pit the benefit of any profit on outside sales, to charge the working account with interest at 5 per cent per annum on the equipment. (*Royal Society of Arts.*)

9. What special instructions would you suggest should be given at the time of "Stock-taking" to the clerks who are responsible for checking inwards invoices and have charge of the Purchase Book and Purchase Ledger, so as to ensure the accuracy of the figures representing purchases, expenses, and stock as appearing in the Trading Account for the period under review? (*Royal Society of Arts.*)

10. The following Trial Balance was extracted from the books of Messrs. Angus MacAdam and John Westrum as on 31st December—

	Dr.			*Cr.*		
	£	*s.*	*d.*	£	*s.*	*d.*
Angus MacAdam (Capital Account)				6,000	–	–
John Westrum do.				2,000	–	–
Angus MacAdam (Drawings Account)	1,000	–	–			
John Westrum do.	300	–	–			
Land and Buildings	4,960	–	–			
Plant and Machinery	1,036	10	–			
Stock, 1st January	2,019	3	7			
Debtors and Creditors	1,596	15	–	1,362	13	3
Reserve for Doubtful Debts				66	3	–
Purchases and Sales	9,284	1	6	14,274	6	6
Returns Inwards	370	2	–			
do. Outwards				870	2	–
General Expenses	150	6	–			
Manufacturing Wages	2,001	15	7			
Rates and Taxes	167	4	9			
Insurance	66	9	7			
Manufacturing Expenses	225	10	4			
Salaries	666	8	–			
Discount Account	39	4	1	29	18	8
Cash in hand	64	3	8			
Cash at Bank	655	9	4			
	£24,603	3	5	£24,603	3	5

The Partnership Agreement provides—

(1) That 5 per cent per annum shall be allowed upon Partnership Capital (as a charge to the Profit and Loss Account), and that such interest shall be credited to the Partners' Drawing Accounts.

(2) That a Partnership Salary out of Net Profits (if and as made) of £300 per annum shall in the first instance be credited to Mr. Westrum's Drawing Account.

(3) That the Net Profit (if any), after providing for the aforesaid Partner's Salary, shall be divided between the Partners *pro rata* to the amounts at the credit of their Capital Accounts, and shall be credited to their Drawing Accounts.

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date, subject to the following adjustments—

Depreciation is to be charged as follows—

2½ per cent on Land and Buildings.
10 per cent on Plant and Machinery.

The Reserve for Doubtful Debts is to be increased to 5 per cent on the Sundry Debtors.

The unexpired portions of the following expenses are to be carried forward—

Rates . . .	£27	1	9
Insurance . . .	16	7	9

The Stock on hand on 31st December, was agreed at the value of £1,991 7s. 6d. (*Royal Society of Arts.*)

CHAPTER VI

SELF-BALANCING LEDGERS; CONTROL ACCOUNTS

Definition. A self-balancing Ledger is one whose balances, when extracted, form a complete Trial Balance. The expression "Self-balancing" Ledger is scarcely strictly accurate, but it is used as being less cumbrous than that of a Ledger "separately balanced by means of an aggregate account."

Object of Self-Balancing Ledgers. Ledgers are made self-balancing in order that errors may be localized and checking confined within narrow limits. Books kept on double-entry principles are proved periodically by means of a Trial Balance. And, if the total debit of the Trial Balance does not equal the total credit, this shows there is a mistake in the books *somewhere*. This information is satisfactory so far as it goes, but it is not sufficient for practical business purposes. We require to know *where* the mistake is, *in which ledger*; otherwise, a considerable amount of time may be wasted in needless checking. For example, we might call over all the Sales Ledgers and not find any mistake, then all the Bought Ledgers, with the same result, and finally discover the error in the General Ledger. To obviate all this calling back or checking of books already accurate, and to locate the error or errors to the particular ledger concerned, a separate Trial Balance is obtained for each ledger. The ledgers are thus proved separately or in sections (see page 16); hence, the use of the term **sectional balancing** in order to designate this particular procedure.

How Ledgers are made Self-Balancing. Where several ledgers are in use, it is obvious that they will not balance of themselves, because the balances they contain will be one-sided. Thus, the Bought Ledger will comprise all *credit* balances, the Sales Ledger all *debit* balances, and so on. Ledgers have, therefore, to be made self-balancing by means of an ingenious device called, in technical phraseology, an Adjustment Account.

Adjustment Account. This is an extra account inserted at the back of a ledger for the double purpose of proving the ledger and of making it self-balancing. It is merely a record of the transactions already posted in the particular ledger, only in a summarized form instead of in detail. The debits and credits, however, are transposed. The balance of the Adjustment Account must be equal to the sum of the other balances in the same ledger, thus proving the ledger. It must also be on the opposite side, so that when a Trial Balance is extracted, the total of the *debits* will equal the total of the *credits.*

Principle of Proof of Adjustment Account. The principle of check underlying the Adjustment Account is proof by means of totals, based on the axiom that *the whole must be equal to the sum of all its parts.* Suppose, for example, we have the following debtors in our ledger, and that the undermentioned sales of goods, payments, returns, etc., take place, the balances remaining in each account would be as stated at the side—

Debtors	Goods Sold	Goods Returned	Cash Received	Discount Allowed	Bills Received	Balances Owing
	£	£	£	£	£	£
Atkins, A.	130	—	76	4	—	50
Roberts, R.	86	3	20	—	—	63
Rufus, R.	74	—	—	—	50	24
Philpott, P.	59	—	38	2	—	19
Lane, L.	42	—	19	1	—	22
Holland, H.	106	10	20	—	36	40
Cross, C.	78	—	57	3	—	18
Duke, D.	34	—	10	—	—	24
	609	13	240	10	86	260

The above transactions would, of course, be posted separately to the individual accounts of each of the debtors concerned. Now let us post the same transactions in summary or total into *one* Debtors' Account and balance it. We should then have the following—

Dr. TOTAL DEBTORS' ACCOUNT *Cr*

19—		£	s.	d.	19—		£	s.	d.
Dec. 31	To Goods .	609	-	-	Jan. 31	By Returns . .	13	-	-
					" "	" Cash . . .	240	-	-
					" "	" Discount . .	10	-	-
					" "	" Bills Receivable .	86	-	-
					" "	" Balance c/d . .	260	-	-
		£609	-	-			£609	-	-
Feb. 1	To Balance b/d .	260	-	-					

The balance of this Total Account is equal to the sum of the separate balances shown in the previous analysis, thus proving the posting, addition, subtraction, and balancing in the ledger to be correct.

Adjustment Account for Bought Ledger. Adjustment Accounts

are constructed for the Bought Ledger, and also for each of its subdivisions if there are several Bought Ledgers. All the items that have been posted in detail in the Bought Ledger must be posted in total to the Bought Ledger Adjustment Account and on the same side. For example—

Dr. BOUGHT LEDGER ADJUSTMENT ACCOUNT *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 31	To Cash . . .	543	10	6	Jan. 1	By Balance (total of Creditors as at this date) . .	2,607	12	10
" "	" Discount . .	18	14	7	" 31	" Purchases .	743	19	11
" "	" Bills Payable .	396	15	4					
" "	" Returns and Allowances .	41	16	8					
" "	" Balance c/d. .	2,350	15	8					
	£	3,351	12	9		£	3,351	12	9
					Feb. 1	By Balance b/d .	2,350	15	8

The above account would appear in the General Ledger. In the Bought Ledger there would be a corresponding account having the items on the opposite sides, in order to make a double entry by the two accounts, thus—

Dr GENERAL LEDGER ADJUSTMENT ACCOUNT *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance (total of Creditors as at this date) . .	2,607	12	10	Jan. 31	By Cash . . .	543	10	6
" 31	" Purchases . .	743	19	11	" "	" Discount . .	18	14	7
					" "	" Bills Payable .	396	15	4
					" "	" Returns and Allowances .	41	16	8
					" "	" Balance c/d . .	2,350	15	8
	£	3,351	12	9		£	3,351	12	9
Feb. 1	To Balance b/d .	2,350	15	8					

The above balance would, of course, be equal to the sum of the separate Bought Ledger balances, and thus prove the Bought Ledger. Special items, such as transfers of contra accounts, cancelled bills, interest on renewed bills or on overdue accounts, etc., which have been posted direct from the Journal, and debited or credited to any of the personal accounts in the Bought Ledger, must also be debited or credited to these Adjustment Accounts.

Adjustment Account for the Sales Ledger. Adjustment Accounts are constructed for the Sales Ledger, and also for each of its

subdivisions if there are several Sales Ledgers. The following is an example—

Dr. SALES LEDGER ADJUSTMENT ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Jan. 1	To Balance (total of Debtors as at this date) .	7,416	12	7	Jan. 31	By Cash . . .	3,716	2	6
" 31	" Sales . . .	3,027	14	8	" "	" Discount . .	167	4	11
" "	" Cash (dishonoured bills and charges)	54	6	11	" "	" Bills Receivable .	316	10	9
					" "	" Returns and Allowances .	74	16	3
					" "	" Bad Debts . .	124	2	10
					" "	" Balance c/d . .	6,099	16	11
	£	10,498	14	2		£	10,498	14	2
Feb. 1	To Balance b/d. .	6,099	16	11					

The above account would appear in the General Ledger. In the Sales Ledger there would be a corresponding account, but having the items on the opposite sides in order to make a double entry by these two accounts, thus—

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Jan. 31	To Cash	3,716	2	6	Jan. 1	By Balance (total of Debtors as at this date) .	7,416	12	7
" "	" Discount . .	167	4	11	" 31	" Sales . .	3,027	14	8
" "	" Bills Receivable	316	10	9	" "	" Cash (dishonoured bill and charges) .	54	6	11
" "	" Returns and Allowances .	74	16	3					
" "	" Bad Debts .	124	2	10					
" "	" Balance c/d .	6,099	16	11					
	£	10,498	14	2		£	10,498	14	2
					Feb. 1	By Balance b/d .	6,099	16	11

The above balance would, of course, be equal to the sum of the separate Sales Ledger balances, thus checking or proving the Sales Ledger. Special items, such as transfers of contra accounts, interest on renewed bills or on overdue accounts, cancelled bills, etc., which have been posted direct from the Journal, or items such as Carriage paid out on empties or returns, etc., which have been posted from the Petty Cash Book, and have been debited or credited to any of the personal accounts in the Sales Ledger, must also be debited or credited to these Adjustment Accounts.

" Contra " Adjustment Accounts. Self-balancing Ledgers are merely an extension or adaptation of the former system of " Total Checking Accounts." A " Total Debtors' Account " and a " Total Creditors' Account "—now dignified with the titles of Sales Ledger Adjustment Account and Bought Ledger Adjustment Account—were kept in the General Ledger and used by the chief clerk or accountant to check the Sales Ledger and Bought Ledger balances respectively. It was quite an afterthought, and a very

modern one, to copy this total account into the back of the Ledger concerned, and by transposing the debits and credits make the Ledger self-balancing. This method, of course, provides "contra" adjustment accounts and facilitates their construction by means of Journal entries, and is also a rigid adherence to the principle that every debit must have a corresponding credit, and vice versa.

Control Accounts. Many accountants, however (including the present editor), claim that the practice of raising these Contra Adjustment Accounts is wrong in principle, and that the only Adjustment Accounts necessary are those kept in the General Ledger, and that these Contra Adjustment Accounts (if kept at all) are Memorandum Accounts only, having nothing to do with the financial books as such, merely providing each Ledger clerk with a methodical statement of the proof of his Ledger. To carry out this scheme, the books are analysed and the totals are carried into the General Ledger to accounts called "A Ledger" Control Account, "B Ledger" Control Account, etc., as the case may be. Each of these accounts would assume a form similar to the Bought Ledger Adjustment Account, and Sales Ledger Adjustment Account shown on pages 188 and 189, and it would then remain for the clerk in charge of the A, B, or C Ledger to make the balance of it come to the balance as shown by the General Ledger. As a matter of convenience, the clerk might keep the above-mentioned Memorandum Account at the end of his ledger in order to obviate the possibility of his having been given wrong figures, and, therefore, of his searching for a mistake which did not exist. If, for instance, the total debits posted into the A Ledger were actually £17,896 and he erroneously put down £17,869, he would be searching for an error of £27 which did not exist, and the keeping of the Memorandum Account in his Ledger, and agreeing the same with the General Ledger before commencing to take out his balance would obviate any such possibility as above mentioned.

Rulings of Subsidiary Books. Where there are several Bought Ledgers and Sales Ledgers in use, extra columns will be required in the Purchases and Sales Books, Returns Books, Bill Books, Cash Book, etc., for the purpose of analysing the items contained therein under the respective ledgers to which they have been posted. These columns will, of course, be in addition to the departmental columns (if any). Where, however, the number of ledgers is very large, separate subsidiary books will be required for each ledger.

See examples on following pages.

A specimen of the special ruling required for the Journal is shown in the worked example. It is only necessary to analyse the Bought Ledger and Sales Ledger items. The transfers and other Journal items that have been posted in detail to these two Ledgers must also be posted in total to their respective Adjustment Accounts.

SALES BOOK

Date	Particulars	Led. Fol.	Total	Ledgers			Mantles	Dress Materials	Felts
				A–K	L–R	S–Z			

PURCHASES BOOK

Date	Particulars	Led. Fol.	Total	Ledgers			Departments.		
				Town	Country	Foreign	No. 1	No. 2	No. 3

BANK CASH BOOK

Dr. RECEIPTS

Date	Particulars	Fol.	Discount	Details	Bank	Sales Ledgers		
						A–K	L–R	S–Z

PAYMENTS *Cr.*

Date	Particulars	Fol.	Discount	Details	Bank	Bought Ledgers		
						A Dept.	B Dept.	C Dept.
						Town	Country	Foreign

NOTE 1. It is not necessary to analyse the General Ledger items as in the worked example. Where there are several Bought Ledgers and Sales Ledgers, the columns can be used to greater advantage as shown above.

NOTE 2. The Bought Ledger column on the Receipts side and the Sales Ledger column on the Payments side, shown in the worked example, can also be dispensed with, as the items are not very numerous, and can be easily picked out when the monthly Adjustment Accounts are constructed.

Journal Entries for Bought Ledger Adjustment Accounts. The Journal entries for constructing the Adjustment Accounts relative to the Bought Ledger (see worked example) would, if required, be as follows—

JOURNAL

			Dr. £	s.	d.	Cr. £	s.	d.
19..								
July 31	General Ledger Adjustment A/c .	B.L.	1,413	2	5			
	To Bought Ledger Adjustment	G.L.				1,413	2	5
	For opening balances as on 1st Jan., 19..							
„ 31	General Ledger Adjustment A/c .	B.L.	1,096	4	7			
	To Bought Ledger Adjustment Account	G.L.				1,096	4	7
	Total credit purchases for month as per Purchases Book.							
„ 31	General Ledger Adjustment A/c .	B.L.	354	8	3			
	To Bought Ledger Adjustment Account	G.L.				354	8	3
	Sundry credit transfers for month as per Journal.							
„ 31	Bought Ledger Adjustment A/c .	G.L.	8	14	6			
	To General Ledger Adjustment Account	B.L.				8	14	6
	Returns for month as per the Purchases Returns Book.							
„ 31	Bought Ledger Adjustment A/c .	G.L.	691	–	7			
	To General Ledger Adjustment Account	B.L.				691	–	7
	Cash and Discount paid to Creditors for month as per Cash Book.							
„ 31	Bought Ledger Adjustment A/c .	G.L.	706	9	7			
	To General Ledger Adjustment Account	B.L.				706	9	7
	Acceptances for month as per Bills Payable Book.							
„ 31	Bought Ledger Adjustment A/c .	G.L.	23	9	11			
	To General Ledger Adjustment Account	B.L.				23	9	11
	Discount allowed by Creditors as per Bills Payable Book.							
„ 31	Bought Ledger Adjustment A/c .	G.L.	205	–	–			
	To General Ledger Adjustment Account	B.L.				205	–	–
	Sundry credit transfers for month as per Journal.							

NOTE. The opening balances of the two Adjustment Accounts would not need to be journalised every month, as the balances would be brought down each month ready for subsequent months.

When Control Accounts are used Journal entries are not required.

Journal Entries for Sales Ledger Adjustment Accounts. The Journal entries for raising the Adjustment Accounts pertaining to the Sales Ledger (see worked example) would, if required, be as follows—

JOURNAL *Dr.* *Cr.*

			Dr. £	s.	d.	Cr. £	s.	d.
19..			£	s.	d.	£	s.	d.
July 31	Sales Ledger Adjustment A/c .	G.L.	2,122	11	9			
	To General Ledger Adjustment Account	S.L.				2,122	11	9
	Opening balances as on 1st Jan.							
„ 31	Sales Ledger Adjustment A/c . .	G.L.	125	7	6			
	To General Ledger Adjustment Account	S.L.				125	7	6
	Dishonoured Bills as per Cash Book.							
„ 31	Sales Ledger Adjustment A/c .	G.L.	391	14	7			
	To General Ledger Adjustment Account	S.L.				391	14	7
	Transfers for month as per Journal.							
„ 31	Sales Ledger Adjustment A/c .	G.L.	1,121	7	3			
	To General Ledger Adjustment Account	S.L.				1,121	7	3
	Total credit sales for month as per Sales Book.							
„ 31	Sales Ledger Adjustment A/c .	G.L.		10	–			
	To General Ledger Adjustment Account	S.L.					10	–
	Items charged to customers during month as per Petty Cash Book.							
„ 31	General Ledger Adjustment A/c .	S.L.	1,556	10	6			
	To Sales Ledger Adjustment A/c	G.L.				1,556	10	6
	Cash and Discount received from Debtors for month as per Cash Book.							
„ 31	General Ledger Adjustment A/c .	S.L.	10	6	9			
	To Sales Ledger Adjustment A/c	G.L.				10	6	9
	Returns for month as per Sales Returns Book.							
„ 31	General Ledger Adjustment A/c .	S.L.	510	13	4			
	To Sales Ledger Adjustment A/c	G.L.				510	13	4
	Bills received from Debtors as per Bills Receivable Book.							
„ 31	General Ledger Adjustment A/c .	S.L.	20	4	4			
	To Sales Ledger Adjustment A/c	G.L.				20	4	4
	Discount allowed to Debtors as per Bills Receivable Book.							

Example. From the following particulars write up the Journal, Tabular Purchases Book, Sales Book, Returns Books, Bank Cash Book, Tabular Petty Cash Book, and Bill Books. Post to proper Ledgers, make them self-balancing, and extract Trial balances—

R. Retrop commenced the month with the following assets and liabilities—

19..				£	s.	d.
July	1.	Petty Cash in hand		20	–	–
„	„	Cash at National Bank, Ltd.		1,757	13	8
„	„	Stock-in-trade		1,756	14	8
„	„	Bills Receivable (Nos. 120-125)		856	10	6
„	„	A. Archer, Ltd.	*Dr.*	317	4	9
„	„	B. Brown	*Dr.*	426	8	7
„	„	D. Dunlop & Co.	*Dr.*	396	16	2
„	„	Evans Bros.	*Dr.*	675	6	3
„	„	F. Finch & Son	*Dr.*	87	1	8
„	„	Garnet, Son & Co.	*Dr.*	219	14	4
„	„	H. Henry	*Cr.*	430	12	10
„	„	I. Isaacs, Ltd.	*Cr.*	361	17	5
„	„	J. Jones & Co.	*Cr.*	212	13	9
„	„	Korper Bros.	*Cr.*	86	8	2
„	„	L. Lewin & Sons	*Cr.*	216	4	7
„	„	Martin, Son & Potter	*Cr.*	76	10	8
„	„	Outstanding Rent	*Cr.*	28	15	–
„	„	Plant and Machinery		4,216	14	6
„	„	Furniture and Fixtures		607	10	6
„	„	Bills Payable (Nos. 48-50)		428	2	10

His transactions for the month were—

19..			£	s.	d.
July	2.	Bought Goods of H. Henry	217	6	5
„	3.	Bill Receivable No. 121 (accepted by F. Finch & Son) returned dishonoured	64	15	10
„	4.	Received Bill (No. 126) from A. Archer, Ltd., P. Green's Acceptance dated 2nd July at 1 month, payable at Coutts', City	301	7	6
„	„	Discount allowed	15	17	3
„	„	Paid Fire and Employers' Liability Insurance	15	15	–
„	5.	Sold Goods to A. Archer, Ltd.	132	3	4
„	„	Received Cash from F. Finch & Son	65	1	4
„	„	Paid Wages	31	4	6
„	„	Bought National Health Insurance Stamps	10	–	–
„	„	Ready Money Sales	16	16	5
„	7.	Received Cash for Bill Receivable No. 123	157	4	8
„	9.	Purchased Goods of I. Isaacs, Ltd.	84	15	2
„	„	Received Cash from B. Brown for amount of account less 5%. Wrote him that we could only allow 2½%, and would carry the balance forward.			
„	10.	Bought Furniture of Ridler & Co.	100	–	–
„	11.	Accepted I. Isaac's Draft at 1 m/d (No. 51) dated 10th July	343	15	7
„	„	Discount allowed	18	1	10
„	„	Paid Life Assurance Premium	10	–	–
„	12.	Sold Goods to B. Brown £424 3s. 11d., less trade discount of 25%.			
„	„	Paid Wages	34	7	9

19..			£	s.	d.
July	12.	Sent Bill No. 120 to Bank for collection	125	–	–
„	„	G. Goodman's Acceptance (No. 124) £125, renewed for 3 months with Interest at 5%. New Bill No. 127 payable at Bank of England, Gloucester.			
„	„	Ready Money Sales	15	15	11
„	14.	Purchased Goods of L. Lewin & Sons	72	8	3
„	„	Bill Receivable No. 120 (accepted by D. Dunlop & Co.) returned by Bank dishonoured	125	–	–
„	„	Noting Charges paid by Bank		7	6
„	15.	D. Dunlop & Co. return damaged Goods	10	16	9
„	16.	Received Cash from D. Dunlop & Co. on account	200	–	–
„	„	Bought Coal of Midland Colliery Co.	25	–	–
„	„	Paid Carriage on same	5	10	–
„	17.	Sold Goods to D. Dunlop & Co.	97	4	2
„	„	Paid Ridler & Co. amount of Account less 5%.			
„	18.	Renewed my Acceptance to M. Masters (No. 48), £150 for 3 months with Interest at 5%. New Bill No. 52.			
„	19.	Bought Goods of J. Jones & Co.	224	10	11
„	„	Paid Wages	29	14	8
„	„	Received Cash from Evans Bros. for amount of Account as at 1st July, less 5%.			
„	„	Ready Money Sales	10	12	6
„	21.	Bought of Stationery Supplies Co., Stationery	27	13	6
„	„	Paid Korper Bros.	82	1	9
„	„	Discount deducted 5%	4	6	5
„	22.	Returned to J. Jones & Co. Goods not up to sample	8	14	6
„	„	F. Finch & Sons accepted our draft at 2 months, Bill No. 128, dated 20th July, payable at Lloyds, Chatham	82	14	7
„	„	Discount allowed	4	7	1
„	„	Sold Goods to Evans Bros.	206	13	9
„	„	Drew for Self	50	–	–
„	23.	Purchased Goods of Korper Bros.	86	3	6
„	„	Sent Garnet, Son & Co.'s Acceptance (No. 122) to H. Henry on account	200	–	–
„	„	Bill Payable No. 49 paid by Bank	216	15	6
„	„	Paid J. Jones & Co.	203	19	3
„	„	Korper Bros. write and say they can allow only 2½% Discount, and will carry balance forward.			
„	24.	Ready Money Purchases	21	4	10
„	25.	Discounted Bill Receivable No. 125	184	10	–
„	„	Bankers' Charge for discounting	1	10	–
„	„	Sold Goods to F. Finch & Son	287	17	5
„	„	Accepted L. Lewin & Son's draft at 2 m/d (Bill No. 53) in favour of N. Nash, dated 24th	210	16	6
„	„	Discount allowed	5	8	1
„	26.	Paid Martin, Son & Potter their Account as at 1st July, less 2½% discount.			
„	„	Paid Wages	32	15	11
„	„	Sold Old Plant (value in books £85) for Cash	70	–	–
„	„	Till Takings	10	4	9
„	28.	Paid Rent to June last	28	15	–
„	„	Received Demand Note for Rates	17	14	6
„	„	Bill Receivable No. 122 (accepted by Garnet, Son & Co.) returned by H. Henry dishonoured.			
„	„	Noting Charges paid by him		7	6

19..			£	s.	d.
July	29.	Bought goods of Martin, Son & Potter, less trade discount of 10% . . . . . . *net*	240	12	4
„	30.	Received Cash from Garnet Son & Co.	200	7	6
„	„	Paid H. Henry	200	7	6
„	31.	Sold Goods to Garnet, Son & Co.	79	5	8
„	„	Paid for Stationery	13	14	6
„	„	Paid Salaries for month	41	13	9
„	„	Till Takings	4	6	2

The Petty Cash is kept on the Imprest System, and the following were the transactions for the month—

19..			£	s.	d.
July	1.	Bought Stamps	1	–	–
„	2.	Paid Carter, Paterson & Co., Charges on goods sold .		3	6
„	3.	Paid Southern Railway Co. Carriage on goods bought	1	17	11
„	„	Paid Noting Charges on dishonoured Bill, chargeable to F. Finch & Son		5	6
„	4.	Paid for Telegrams		2	6
„	5.	Paid for Cleaning Offices		6	–
„	7.	Bus and Tram Fares of boy		1	3
„	8.	Printing Address Labels.		10	6
„	9.	Paid L.M. & S. Railway Carriage on goods bought .	1	15	10
„	10.	Paid Carter, Paterson Charges on goods sold . .		2	4
„	11.	Paid London Parcels Delivery Co. Charges on goods sold		2	8
„	12.	Paid for Cleaning Offices		6	–
„	14.	Bought Envelopes		5	6
„	15.	Paid Travellers' Expenses as per card . . .		16	6
„	16.	Paid L.M. & S. Railway, Carriage on goods purchased	1	2	6
„	17.	Paid for Telegrams		1	2
„	18.	Bought Candles and Matches			6
„	19.	Paid for Cleaning Offices		6	–
„	21.	Bus and Tram Fares of boy		1	–
„	22.	Paid Parcels Delivery Co., Charges on goods sold .		3	4
„	23.	Paid G.W. Railway, Charges on goods bought . .	1	18	6
„	24.	Bought Tape and Sealing-wax		1	2
„	25.	Paid for Washing Towels and Dusters . . .		3	6
„	26.	Paid for Cleaning Offices		6	–
„	28.	Paid Pickford & Co., Charges on goods sold . .		3	8
„	29.	Paid for Telegrams			10
„	„	Bought Stamps	1	–	–
„	30.	Paid Carriage on returned empties, chargeable to Evans Bros.		4	6
„	31.	Paid Travellers' Expenses		10	8

PRIVATE JOURNAL

Date	Particulars				Dr. £	s.	d.	Cr. £	s.	d.
19..					£	s.	d.	£	s.	d.
July 1	Petty Cash				20	–	–			
" "	Bank				1,757	13	8			
" "	Stock				1,756	14	8			
" "	Bills Receivable				856	10	6			
" "	Sales Ledger Adjustment Account . .				2,122	11	9			
	A. Archer, Ltd. .	£317	4	9						
	B. Brown . .	426	8	7						
	D. Dunlop & Co. .	396	16	2						
	Evans Bros. . .	675	6	3						
	F. Finch & Son .	87	1	8						
	Garnet, Son & Co. .	219	14	4						
" "	Plant and Machinery				4,216	14	6			
" "	Furniture and Fixtures.				607	10	6			
" "	To Bought Ledger Adjustment Account.							1,413	2	5
	H. Henry . .	£430	12	10						
	I. Isaacs, Ltd. .	361	17	5						
	J. Jones & Co. .	212	13	9						
	Korper Bros. .	86	8	2						
	L. Lewin & Sons .	216	4	7						
	Martin, Son & Potter	76	10	8						
	Outstanding Accounts	28	15	–						
" "	" Bills Payable							428	2	10
" "	" Capital							9,496	10	4
	£				11,337	15	7	11,337	15	7
	For Sundry Assets and Liabilities as at this date.									

JOURNAL

Date	Particulars	Dr.			Cr.			Bought Ledger						Sales Ledger					
								Dr.			Cr.			Dr.			Cr.		
19..		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
July 3	F. Finch & Son	64	15	10										64	15	10			
	To Bill Receivable . . .				64	15	10												
	Dishonoured Bill No. 121 cancelled.																		
„ 12	G. Goodman	125	–	–										125	–	–			
	To Bill Receivable . . .				125	–	–												
	Bill No. 124 cancelled.																		
„ 12	G. Goodman	1	11	3										1	11	3			
	To Interest				1	11	3												
	Interest on £125 for 3 mos. at 5%.																		
„ 17	Ridler & Co.	5	–	–				5	–	–									
	To Furniture				5	–	–												
	Discount allowed 5%.																		
„ 18	Bill Payable	150	–	–															
	To M. Masters				150	–	–				150	–	–						
	Bill No. 48 cancelled.																		
„ 18	Interest	1	17	6															
	To M. Masters				1	17	6				1	17	6						
	Interest on £150 for 3 mos. at 5%.																		
„ 23	H. Henry	200	–	–				200	–	–									
	To Bill Receivable . . .				200	–	–												
	Bill No. 122 endorsed over to him.																		
„ 23	Discounts Received . . .	2	3	3															
	To Korper Bros. . . .				2	3	3				2	3	3						
	Discount deducted in error.																		

JOURNAL (*continued*)

Date	Particulars	Dr.			Cr.			Bought Ledger Dr.			Bought Ledger Cr.			Sales Ledger Dr.			Sales Ledger Cr.		
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
19.. July 26	Loss on Sale of Plant	15	–	–															
	To Plant and Machinery				15	–	–												
	Loss on Sale transferred.																		
„ 28	Garnet, Son & Co.	200	7	6										200	7	6			
	To H. Henry				200	7	6				200	7	6						
	H. Henry's acceptance Bill No. 122 dishonoured, noting charges 7s. 6d.																		
								205	–	–	354	8	3	391	14	7			

BILLS RECEIVABLE BOOK

Date	No. of Bill	From Whom Received	Led. Fol.	Discount			Amount of Bill			Date of Bill	Term	Due Date
				£	s.	d.	£	s.	d.			
19— July 4	126	A. Archer, Ltd.		15	17	3	301	7	6	July 2	1 m/d.	Aug. 5
„ 12	127	G. Goodman					126	11	3	July 11	3 m/d	Oct. 14
„ 22	128	F. Finch & Son		4	7	1	82	14	7	July 20	2 m/d	Sept. 23
				£20	4	4	£510	13	4			

BILLS PAYABLE BOOK

Date	No. of Bill	To Whom Given	Led. Fol.	Discount			Amount of Bill			Date of Bill	Term	Due Date
				£	s.	d.	£	s.	d.			
19— July 11	51	I. Isaacs, Ltd.		18	1	10	343	15	7	July 10	1 m/d	Aug. 13
„ 18	52	M. Masters					151	17	6	July 17	3 m/d	Oct. 20
„ 25	53	L. Lewin & Sons		5	8	1	210	16	6	July 24	2 m/d	Sept. 27
				£23	9	11	£706	9	7			

PURCHASES BOOK

Date	Particulars	Details			Totals			Purchases			Rent, Rates, etc.			Coal			Furniture and Fixtures			Stationery		
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
19.. July 2	H. Henry— Goods . . .				217	6	5	217	6	5												
„ 9	I. Isaacs, Ltd.— Goods . . .				84	15	2	84	15	2												
„ 10	Ridler & Co.— Furniture . .				100	–	–										100	–	–			
„ 14	J. Lewin & Sons— Goods . . .				72	8	3	72	8	3												
„ 16	Midland Colliery Co.— Coal . . .				25	–	–							25	–	–						
„ 19	J. Jones & Co.— Goods . . .				224	10	11	224	10	11												
„ 21	Stationery Supplies Co. Stationery . .				27	13	6													27	13	6
„ 23	Korper Bros.— Goods . . .				86	3	6	86	3	6												
„ 28	Outstanding A/cs— Rates . . .				17	14	6				17	14	6									
„ 29	Martin, Son & Potter— Goods . . .	267	7	–																		
	Less Trade Discount 10% . . .	26	14	8	240	12	4	240	12	4												
					£1,096	4	7	£925	16	7	£17	14	6	£25	–	–	£100	–	–	£27	13	6

PURCHASES RETURNS BOOK

		£	s.	d.	£	s.	d.
19.. July 22	J. Jones & Co.— Goods not up to sample .				8	14	6
					£8	14	6

SALES BOOK

		£	s.	d.	£	s.	d.
19.. July 5	A. Archer, Ltd.— Goods				132	3	4
„ 12	B. Brown— Goods	424	3	11			
	Less Trade Discount, 25% .	106	1	–			
					318	2	11
„ 17	D. Dunlop & Co.— Goods				97	4	2
„ 22	Evans Bros.— Goods				206	13	9
„ 25	F. Finch & Son— Goods				287	17	5
„ 31	Garnet, Son & Co.— Goods				79	5	8
				£	1,121	7	3

SALES RETURNS BOOK

		£	s.	d.	£	s.	d.
19.. July 15	D. Dunlop & Co.— Goods damaged . .				10	16	9
					£10	16	9

BANK CASH BOOK

Dr. RECEIPTS

Date	Particulars	Discount £	s.	d.	Details £	s.	d.	Bank £	s.	d.	Bought Ledger £	s.	d.	Sales Ledger £	s.	d.	General Ledger £	s.	d.
19..																			
July 1	To Balance							1,757	13	8							1,757	13	8
„ 5	„ F. Finch & Son . . .				65	1	4							65	1	4			
„ „	„ R.M. Sales				16	16	5	81	17	9							16	16	5
„ 7	„ Bill Receivable No. 123 . .				157	4	8	157	4	8							157	4	8
„ 9	„ B. Brown	10	13	3	405	2	2	405	2	2				415	15	5			
„ 12	„ Bill Receivable No. 120 . .				125	–	–										125	–	–
„ „	„ R.M. Sales				15	15	11	140	15	11							15	15	11
„ 16	„ D. Dunlop & Co. . . .				200	–	–	200	–	–				200	–	–			
„ 19	„ Evans Bros. . . .	33	15	4	641	10	11							675	6	3			
„ „	„ R.M. Sales				10	12	6	652	3	5							10	12	6
„ 25	„ Bill Receivable No. 125 .				184	10	–	184	10	–							184	10	–
„ 26	„ Plant				70	–	–										70	–	–
„ „	„ R.M. Sales				10	4	9	80	4	9							10	4	9
„ 30	„ Garnet, Son & Co. . .				200	7	6	200	7	6				200	7	6			
„ 31	„ R.M. Sales				4	6	2	4	6	2							4	6	2
		£44	8	7				£3,864	6	–				£1,556	10	6	£2,352	4	1
Aug. 1	To Balance b/d							£2,525	16	10							£2,525	16	10

BANK CASH BOOK

PAYMENTS

Cr.

Date		Particulars	Discount			Details			Bank			Bought Ledger			Sales Ledger			General Ledger		
			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
19..																				
July	4	By Insurance							15	15	–							15	15	–
„	5	„ Wages							31	4	6							31	4	6
„	„	„ Insurance Stamps							10	–	–							10	–	–
„	11	„ Drawing A/c							10	–	–							10	–	–
„	12	„ Wages							34	7	9							34	7	9
„	14	„ D. Dunlop (Bill)							125	7	6				125	7	6			
„	16	„ Coal (Carriage)							5	10	–							5	10	–
„	17	„ Ridler & Co.							95	–	–	95	–	–						
„	19	„ Wages							29	14	8							29	14	8
„	21	„ Korper Bros.	4	6	5				82	1	9	86	8	2						
„	22	„ Drawing A/c							50	–	–							50	–	–
„	23	„ Bill Payable No. 49							216	15	6							216	15	6
„	„	„ J. Jones & Co.							203	19	3	203	19	3						
„	24	„ R.M. Purchases							21	4	10							21	4	10
„	25	„ Banker's Discount							1	10	–							1	10	–
„	26	„ Martin, Son & Potter	1	18	3				74	12	5	76	10	8						
„	„	„ Wages							32	15	11							32	15	11
„	28	„ Outstanding Rent							28	15	–	28	15	–						
„	30	„ H. Henry							200	7	6	200	7	6						
„	31	„ Stationery							13	14	6							13	14	6
„	„	„ Salaries							41	13	9							41	13	9
„	„	„ Petty Cash							13	19	4							13	19	4
„	„	„ Balance c/d							2,525	16	10							2,525	16	10
			£6	4	8				£3,864	6	–	£691	–	7	£125	7	6	£3,054	2	7

Dr. PETTY CASH BOOK *Cr.*

Cash Received			Date	Particulars	Total			Sundry Expenses			Postage & Telegrams			Carriage Inwards			Printing & Stationery			Travelling Expenses			Carriage Outwards			Folio	Ledger Accounts		
£	s.	d.	19—		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.
20	–	–	July 1	Balance b/f																									
			„ „	Stamps	1	–	–				1	–	–																
			„ 1	Carter, Paterson & Co.		3	6																	3	6				
			„ 3	Southern Railway Co.	1	17	11							1	17	11													
			„ „	Noting Charges on Bill (F. Finch & Son)		5	6																					5	6
			„ 4	Telegrams		2	6					2	6																
			„ 5	Cleaning Offices		6	–		6	–																			
			„ 7	Bus and Tram Fares		1	3		1	3																			
			„ 8	Address Labels		10	6											10	6										
			„ 9	L.M. & S. Railway	1	15	10							1	15	10													
			„ 10	Carter, Paterson & Co.		2	4																	2	4				
			„ 11	London Parcels Dely. Co.		2	8																	2	8				
			„ 12	Cleaning Offices		6	–		6	–																			
			„ 14	Envelopes		5	6											5	6										
			„ 15	Traveller's Expenses		16	6														16	6							
			„ 16	L.M. & S. Railway	1	2	6							1	2	6													
			„ 17	Telegrams		1	2					1	2																
			„ 18	Candles and Matches			6			6																			
			„ 19	Cleaning Offices		6	–		6	–																			
			„ 21	Bus and Tram Fares		1	–		1	–																			
			„ 22	Parcels Delivery Co.		3	4																	3	4				
			„ 23	Great Western Railway	1	18	6							1	18	6													
			„ 24	Tape and Sealing-wax		1	2											1	2										
			„ 25	Washing Towels and Dusters		3	6		3	6																			
			„ 26	Cleaning Offices		6	–		6	–																			
			„ 28	Pickford & Co.		3	8																	3	8				
			„ 29	Telegrams			10						10																
			„ „	Stamps	1	–	–				1	–	–																
			„ 30	Carriage on returned empties (Evans Bros.)		4	6																					4	6
			„ 31	Traveller's Expenses		10	8														10	8							
					£13	19	4	£1	10	3	£2	4	6	£6	14	9		17	2	£1	7	2		15	6			10	–
13	19	4	„ „	Cheque C. B.				G.	L.		G.	L.		G.	L.		G.	L.		G.	L.		G.	L.					
			„ „	Balance c/d	20	–	–																						
£33	19	4			£33	19	4																						
20	–	–	Aug. 1	Balance b/d																									

BOUGHT OR CREDITORS' LEDGER

Dr. H. HENRY **Cr.**

		£	s.	d.			£	s.	d.
19—					19—				
July 23	To Bill Receivable	200	–	–	July 1	By Balance	430	12	10
„ 30	„ Cash	200	7	6	„ 2	„ Goods	217	6	5
					„ 28	„ Garnet, Son & Co.	200	7	6

Dr. KORPER BROS. **Cr.**

		£	s.	d.			£	s.	d.
19—					19—				
July 21	To Cash	82	1	9	July 1	By Balance	86	8	2
„ „	„ Discount	4	6	5					
		£86	8	2			£86	8	2
					July 23	By Discount	2	3	3
					„ „	„ Goods	86	3	6

Dr. I. ISAACS, LTD. **Cr.**

		£	s.	d.			£	s.	d.
19—					19—				
July 11	To Bill Payable	343	15	7	July 1	By Balance	361	17	5
„ „	„ Discount	18	1	10	„ 9	„ Goods	84	15	2

Dr. J. JONES & CO. **Cr.**

		£	s.	d.			£	s.	d.
19—					19—				
July 22	To Returns	8	14	6	July 1	By Balance	212	13	9
„ 23	„ Cash	203	19	3	„ 19	„ Goods	224	10	11

Dr. L. LEWIN & SONS **Cr.**

		£	s.	d.			£	s.	d.
19—					19—				
July 25	To Bill Payable	210	16	6	July 1	By Balance	216	4	7
„ „	„ Discount	5	8	1	„ 14	„ Goods	72	8	3

Dr. MARTIN, SON & POTTER **Cr.**

		£	s.	d.			£	s.	d.
19—					19—				
July 26	To Cash	74	12	5	July 1	By Balance	76	10	8
„ „	„ Discount	1	18	3					
		£76	10	8			£76	10	8
					July 29	By Goods	240	12	4

Dr. M. MASTERS **Cr.**

		£	s.	d.			£	s.	d.
19—					19—				
July 18	To Bill Payable	151	17	6	July 18	By Bill Payable	150	–	–
					„ „	„ Interest	1	17	6
		£151	17	6			£151	17	6

Dr. MIDLAND COLLIERY CO. **Cr.**

		£	s.	d.			£	s.	d.
					19—				
					July 16	By Coal	25	–	–

Dr. STATIONERY SUPPLIES CO. *Cr.*

		£	s.	d.			£	s.	d.
					19— July 21	By Stationery	27	13	6

Dr. RIDLER & CO. *Cr.*

		£	s.	d.			£	s.	d.
19— July 17	To Cash	95	-	-	19— July 10	By Furniture	100	-	-
,, ,,	,, Furniture	5	-	-					
		£100	-	-			£100	-	-

Dr. OUTSTANDING ACCOUNTS *Cr.*

		£	s.	d.			£	s.	d.
19— July 28	To Cash	£28	15	-	19— July 1	By Balance	£28	15	-
					,, 28	By Rates, etc.	17	14	6

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT[1] *Cr.*

		£	s.	d.			£	s.	d.
19— July 1	To Balance	1,413	2	5	19— July 31	By Returns	8	14	6
,, 31	,, Goods	1,096	4	7	,, ,,	,, Cash & Discount	691	-	7
,, ,,	,, Transfers as per Journal	354	8	3	,, ,,	,, Bills Payable	706	9	7
					,, ,,	,, Discount	23	9	11
					,, ,,	,, Transfers as per Journal	205	-	-
					,, ,,	,, Balance c/d	1,229	-	8
	£	2,863	15	3		£	2,863	15	3
Aug. 1	To Balance b/d	1,229	-	8					

SALES OR DEBTORS' LEDGER

Dr. A. ARCHER, LTD. *Cr.*

		£	s.	d.			£	s.	d.
19— July 1	To Balance	317	4	9	19— July 4	By Bill Receivable	301	7	6
					,, ,,	,, Discount	15	17	3
		£317	4	9			£317	4	9
July 5	To Goods	132	3	4					

Dr. B. BROWN *Cr.*

		£	s.	d.			£	s.	d.
19— July 1	To Balance	426	8	7	19— July 9	By Cash	405	2	2
					,, ,,	,, Discount	10	13	3
					,, ,,	,, Balance c/d	10	13	2
		£426	8	7			£426	8	7
July 9	To Balance b/d	10	13	2					
,, 12	,, Goods	318	2	11					

Dr. D. DUNLOP & CO. *Cr.*

		£	s.	d.			£	s.	d.
19— July 1	To Balance	396	16	2	19— July 15	By Returns	10	16	9
,, 14	,, Cash (dishonoured bill)	125	7	6	,, 16	,, Cash	200	-	-
,, 17	,, Goods	97	4	2					

[1] Where a Control Account is kept, this account would not be made out.

Dr. EVANS BROS. Cr.

		£	s.	d.			£	s.	d.
19—					19—				
July 1	To Balance .	675	6	3	July 19	By Cash .	641	10	11
					„ „	„ Discount .	33	15	4
		£675	6	3			£675	6	3
July 22	To Goods .	206	13	9					
„ 30	„ Petty Cash .		4	6					

Dr. F. FINCH & SON Cr.

		£	s.	d.			£	s.	d.
19—					19—				
July 1	To Balance . .	87	1	8	July 5	By Cash . . .	65	1	4
„ 3	„ Bill Rec. (dishonoured) .	64	15	10	„ 22	„ Bill Receivable .	82	14	7
„ 5	„ Petty Cash . .		5	6	„ „	„ Discount . .	4	7	1
		£152	3	–			£152	3	–
July 23	To Goods . .	287	17	5					

Dr. GARNET, SON & CO. Cr.

		£	s.	d.			£	s.	d.
19—					19—				
July 1	To Balance . .	219	14	4	July 30	By Cash .	200	7	6
„ 28	„ H. Henry . .	200	7	6					
„ 31	„ Goods .	79	5	8					

Dr. G. GOODMAN Cr.

		£	s.	d.			£	s.	d.
19—					19—				
July 12	To Bill Receivable .	125	–	–	July 14	By Bill Receivable .	126	11	3
„ „	„ Interest . .	1	11	3					
		£126	11	3			£126	11	3

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT[1] Cr.

		£	s.	d.			£	s.	d.
19—					19—				
July 31	To Cash and Discount . .	1,556	10	6	July 1	By Balance . .	2,122	11	9
„ „	„ Returns . .	10	16	9	„ 31	„ Cash (dishonoured bill) . .	125	7	6
„ „	„ Bills Receivable .	510	13	4	„ „	„ Transfer as per Journal . .	391	14	7
„ „	„ Discount . .	20	4	4	„ „	„ Goods . .	1,121	7	3
„ „	„ Balance c/d .	1,663	6	2	„ „	„ Petty Cash . .		10	–
	£	3,761	11	1		£	3,761	11	1
					Aug. 1	By Balance b/d .	1,663	6	2

IMPERSONAL OR GENERAL LEDGER

Dr. STOCK Cr.

		£	s.	d.			£	s.	d.
19—									
July 1	To Balance . .	1,756	14	8					

[1] Where a Control Account is kept, this account would not be made out.

Dr. PLANT AND MACHINERY **Cr.**

19—		£	s.	d.	19—		£	s.	d.
July 1	To Balance	4,216	14	6	July 26	By Cash	70	–	–
					„ 26	„ Loss on Sale	15	–	–

Dr. FURNITURE AND FIXTURES **Cr.**

19—		£	s.	d.	19—		£	s.	d.
July 1	To Balance	607	10	6	July 17	By Ridler & Co.	5	–	–
„ 31	„ Sundry Crs.	100	–	–					

Dr. BILLS PAYABLE **Cr.**

19—		£	s.	d.	19—		£	s.	d.
July 18	To M Masters	150	–	–	July 1	By Balance	428	2	10
„ 23	„ Cash	216	15	6	„ 31	„ Sundry Crs.	706	9	7

Dr. BILLS RECEIVABLE **Cr.**

19—		£	s.	d.	19—		£	s.	d.
July 1	To Balance	856	10	6	July 3	By Finch & Son	64	15	10
					„ 7	„ Cash	157	4	8
					„ 12	„ Cash	125	–	–
					„ 12	„ G. Goodman	125	–	–
					„ 23	„ H. Henry	200	–	–
					„ 25	„ Cash	184	10	–
		£856	10	6			£856	10	6
July 31	To Sundry Drs.	510	13	4					

Dr. PURCHASES **Cr.**

19—		£	s.	d.					
July 24	To Cash	21	4	10					
„ 31	„ Sundry Crs.	925	16	7					

Dr PURCHASES RETURNS AND ALLOWANCES **Cr.**

					19—		£	s.	d.
					July 31	By Sundry Crs.	8	14	6

Dr. SALARIES **Cr.**

19—		£	s.	d.					
July 31	To Cash	41	13	9					

Dr. SALES **Cr.**

					19—		£	s.	d.
					July 5	By Cash	16	16	5
					„ 12	„ „	15	15	11
					„ 19	„ „	10	12	6
					„ 26	„ „	10	4	9
					„ 31	„ „	4	6	2
					„ 31	„ Sundry Drs.	1,121	7	3

Dr SALES RETURNS AND ALLOWANCES Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 31	To Sundry Drs.	10	16	9					

Dr. WAGES Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 5	To Cash	31	4	6					
„ 12	„ „	34	7	9					
„ 19	„ „	29	14	8					
„ 26	„ „	32	15	11					

Dr. HEALTH INSURANCE STAMPS Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 5	To Cash	10	–	–					

Dr. INSURANCE Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 4	To Cash	15	15	–					

Dr. RENT, RATES, AND TAXES Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 31	To Sundry Crs.	17	14	6					

Dr. PRINTING AND STATIONERY Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 31	To Cash	13	14	6					
„ 31	„ Sundry Crs.	27	13	6					
„ 31	„ Petty Cash		17	2					

Dr. COAL Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 16	To Cash (Carriage)	5	10	–					
„ 31	„ Sundry Crs.	25	–	–					

Dr. LOSS ON SALE OF PLANT Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 26	To Plant and Machinery	15	–	–					

Dr. DISCOUNTS ALLOWED Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 31	To Sundry Drs.	44	8	7					
„ 31	„ „	20	4	4					

Dr. DISCOUNTS RECEIVED Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 23	To Korper Bros.	2	3	3	19— July 31	By Sundry Crs.	6	4	8
					„ 31	„ „	23	9	11

Dr. BANKER'S DISCOUNT Cr.

Date		£	s.	d.	Date		£	s.	d.
19— July 25	To Cash	1	10	–					

Dr. INTEREST RECEIVABLE *Cr.*

		£	s.	d.			£	s.	d.
					19— July 12	By G. Goodman .	1	11	8

Dr. INTEREST PAYABLE *Cr.*

		£	s.	d.			£	s.	d.
19— July 18	To M. Masters .	1	17	6					

Dr. POSTAGE AND TELEGRAMS *Cr.*

		£	s.	d.			£	s.	d.
19— July 31	To Petty Cash .	2	4	6					

Dr. CARRIAGE INWARDS *Cr.*

		£	s.	d.			£	s.	d.
19— July 31	To Petty Cash .	6	14	9					

Dr. TRAVELLING EXPENSES *Cr.*

		£	s.	d.			£	s.	d.
19— July 31	To Petty Cash .	1	7	2					

Dr. CARRIAGE OUTWARDS *Cr.*

		£	s.	d.			£	s.	d.
19— July 31	To Petty Cash .		15	6					

Dr. SUNDRY EXPENSES *Cr.*

		£	s.	d.			£	s.	d.
19— July 31	To Petty Cash .	1	10	3					

Dr. BOUGHT LEDGER ADJUSTMENT ACCOUNT (OR CONTROL ACCOUNT) *Cr.*

		£	s.	d.			£	s.	d.
19— July 31	To Returns . .	8	14	6	19— July 1	By Balance . .	1,413	2	5
„ 31	„ Cash & Discount .	691	–	7	„ 31	„ Goods . .	1,096	4	7
„ 31	„ Bills Payable .	706	9	7	„ 31	„ Transfers as per Journal . .	354	8	3
„ 31	„ Discount . .	23	9	11					
„ 31	„ Transfers as per Journal . .	205	–	–					
31	„ Balance c/d .	1,229	–	8					
	£	2,863	15	3		£	2,863	15	3
					Aug. 1	By Balance b/d .	1,229	–	8

Dr. SALES LEDGER ADJUSTMENT ACCOUNT (OR CONTROL ACCOUNT) *Cr.*

		£	s.	d.			£	s.	d.
19— July 1	To Balance . .	2,122	11	9	19— July 31	By Cash and Discount . .	1,556	10	6
„ 31	„ Cash (dishonoured bill) . .	125	7	6	„ 31	„ Returns . .	10	16	9
„ 31	„ Transfers as per Journal . .	391	14	7	„ 31	„ Bills Receivable .	510	13	4
„ 31	„ Goods . .	1,121	7	3	„ 31	„ Discount . .	20	4	4
„ 31	„ Petty Cash . .		10	–	„ 31	„ Balance c/d .	1,663	6	2
	£	3,761	11	1		£	3,761	11	1
Aug. 1	To Balance b/d .	1,663	6	2					

PRIVATE LEDGER

Dr. CAPITAL ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
					19— July 1	By Balance	9,496	10	4

Dr. DRAWINGS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19— July 11	To Cash	10	–	–					
" 22	" "	50	–	–					

TRIAL BALANCE
BOUGHT LEDGER
31st July, 19..

	Dr. £	s.	d.	Cr. £	s.	d.
I. Isaacs, Ltd.				84	15	2
H. Henry				447	19	3
J. Jones & Co.				224	10	11
Korper Bros.				88	6	9
L. Lewin & Sons				72	8	3
Martin, Son & Potter				240	12	4
Midland Colliery Co.				25	–	–
Stationery Supplies Co.				27	13	6
Outstanding A/cs				17	14	6
[1]General Ledger Adjustment A/c.	1,229	–	8			
£	1,229	–	8	1,229	–	8

TRIAL BALANCE
SALES LEDGER
31st July, 19..

	Dr. £	s.	d.	Cr. £	s.	d.
A. Archer, Ltd.	132	3	4			
B. Brown	328	16	1			
D. Dunlop & Co.	408	11	1			
Evans Bros.	206	18	3			
F. Finch & Son	287	17	5			
Garnet, Son & Co.	299	–	–			
[1]General Ledger Adjustment A/c.				1,663	6	2
£	1,663	6	2	1,663	6	2

[1] Or Total as per Control Account.

TRIAL BALANCE

GENERAL LEDGER. 31st July, 19..

		Dr. £	s.	d.	Cr. £	s.	d.
	Stock	1,756	14	8			
	Plant and Machinery .	4,131	14	6			
	Furniture and Fixtures .	702	10	6			
	Bills Payable . . .				767	16	11
	Bills Receivable . .	510	13	4			
	Purchases . . .	947	1	5			
	Purchases Returns and Allowances . . .				8	14	6
	Salaries	41	13	9			
	Sales				1,179	3	-
	Sales Returns, and Allowances	10	16	9			
	Wages	128	2	10			
	Health Insurance Stamps .	10	-	-			
	Insurance . . .	15	15	-			
	Rent, Rates, and Taxes .	17	14	6			
	Printing and Stationery .	42	5	2			
	Coal	30	10	-			
	Loss on Sale of Plant .	15	-	-			
	Discounts Allowed . .	64	12	11			
	Discounts Received . .				27	11	4
	Banker's Discount . .	1	10	-			
	Interest Receivable . .				1	11	3
	Interest Payable . .	1	17	6			
	Postage and Telegrams .	2	4	6			
	Carriage Inwards . .	6	14	9			
	Travelling Expenses . .	1	7	2			
	Carriage Outwards . .		15	6			
	Sundry Expenses . .	1	10	3			
	Bought Ledger Adjustment Account [1]				1,229	-	8
	Sales Ledger Adjustment Account [2] . . .	1,663	6	2			
P.L.	Capital A/c				9,496	10	4
	Drawings A/c . . .	60	-	-			
C.B.	Cash at Bank . . .	2,525	16	10			
P.C.B.	Petty Cash in hand . .	20	-	-			
		£12,710	8	-	£12,710	8	-

Procedure where there are Several Bought and Sold Ledgers. In large concerns where there are several Bought and Sold Ledgers in use, the system of having separate columns for each Ledger in each of the subsidiary books cannot conveniently be adopted, as the numerous rulings required would render the books too cumbersome. The subsidiary books, however, are ruled with departmental

[1] On the Balance Sheet this item will be called Sundry Creditors.
[2] On the Balance Sheet this item will show as Sundry Debtors.

columns where such are necessary. Separate analysis sheets or books are provided, in which the L s. d. amounts on each page of the subsidiary books, and also the Cash Book, are dissected and placed in their proper column. To facilitate such dissection the various Ledgers are provided with a special distinguishing mark or letter, which is inserted in the folio column of the subsidiary book when the item is posted into its particular Ledger. Thus, items in Ledger No. 1 would, when posted, have the figure 1 prefixed to the folio; items in Ledger No. 2 would, when posted, have the figure 2 prefixed to the folio, and so on. The analytical columns are totalled horizontally and vertically, in order, by means of cross casts, to serve as a check on the analysis itself. The vertical total, at the finish, must also agree with the periodical total of the book so analysed. The totals of the various sheets are then copied into a Summary Book, and the Adjustment Accounts duly made. Separate Adjustment Accounts can, if desired, be prepared for each Ledger, or the whole lot may be constructed in tabular form. The combined total of the balances of the Adjustment Accounts provides the total amount of Debtors and Creditors for the Balance Sheet. The subjoined *pro forma* rulings and figures should be carefully followed by the student, as they illustrate fully and clearly the procedure outlined above.

ANALYSIS OF DAY OR SALES BOOK

Sales Ledgers																								Total		
1			2			3			4			5			6			7			8					
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
16	15	3							27	19	8							54	3	5				98	18	4
			26	1	7	16	1	7				29	14	8	78	9	7				32	14	11	183	2	4
												etc.														
												etc.														
												etc.														
817	4	5	326	9	2	234	10	6	198	3	7	84	11	1	356	13	9	208	2	10	276	12	2	2002	7	6

ANALYSIS OF SALES RETURNS BOOK

Sales Ledgers																								Total		
1			2			3			4			5			6			7			8					
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
5	1	6				4	8	8							13	1	7				12	2	6	34	14	3
			11	2	7				3	4	9	2	6	10				4	1	11				20	16	1
												etc.														
												etc.														
												etc.														
20	10	8	14	3	9	15	1	6	10	2	5	12	1	9	24	2	8	17	5	7	15	6	10	128	15	2

ANALYSIS OF BILLS RECEIVABLE BOOK

Sales Ledgers																								Total		
1			2			3			4			5			6			7			8					
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
65	11	4				83	1	9				56	2	4							39	14	11	244	10	4
			62	19	8				75	4	3				29	2	6	35	15	8				203	2	1
												etc.														
												etc.														
												etc.														
94	16	8	112	4	7	116	10	9	124	3	8	107	4	2	58	10	5	76	14	11	105	3	8	795	8	10

ANALYSIS OF TRANSFERS (DEBITS)

Sales Ledgers																								Total		
1			2			3			4			5			6			7			8					
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
			17	1	6							14	3	8							19	2	11	50	8	1
						10	1	6							15	4	9							25	6	3
												etc.														
												etc.														
												etc.														
10	1	6	24	9	8	15	11	2	20	1	7	52	3	7	15	4	9	26	4	7	28	4	3	192	1	1

ANALYSIS OF TRANSFERS (CREDITS)

Sales Ledgers																								Total		
1			2			3			4			5			6			7			8					
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
4	5	6							11	2	9							17	4	7				32	12	10
			5	11	8										10	2	7				6	1	3	21	15	6
												etc.														
												etc.														
												etc.														
19	2	11	18	1	6	4	7	7	21	4	8	5	6	11	25	13	9	21	9	10	17	4	8	132	11	10

ANALYSIS OF BOUGHT OR PURCHASES BOOK

Bought Ledgers																								Total		
1			2			3			4			5			6			7			8					
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
76	4	8				59	10	11				112	2	7							36	11	9	284	9	11
			110	4	2				56	7	2				28	13	5	76	1	9				271	6	6
												etc.														
												etc.														
												etc.														
198	3	11	285	4	2	287	6	3	202	9	10	291	18	5	219	10	6	259	4	5	287	6	10	2031	4	4

ANALYSIS OF PURCHASES RETURNS BOOK

Bought Ledgers																								Total		
1			2			3			4			5			6			7			8					
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
4	3	7							5	8	9	10	1	2				6	2	3				25	15	9
			7	5	4	2	18	6							5	3	7				3	15	4	19	2	9
												etc.														
												etc.														
												etc.														
27	1	6	12	3	9	15	1	7	24	3	9	37	13	6	29	1	11	19	6	8	25	11	7	190	4	3

ANALYSIS OF BILLS PAYABLE BOOK

Bought Ledgers																								Total		
1			2			3			4			5			6			7			8					
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
27	13	2							25	10	7				16	4	11				25	9	8	94	18	4
			19	14	6	27	10	8				34	3	5				29	18	6				111	7	1
												etc.														
												etc.														
												etc.														
87	3	9	65	12	2	76	4	3	89	9	5	101	4	2	96	2	8	105	4	10	73	16	5	694	17	8

ANALYSIS OF TRANSFERS (DEBITS)

Bought Ledgers																								Total		
1			2			3			4			5			6			7			8					
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
2	3	5				1	4	9				2	11	3				1	15	9				7	15	2
			3	4	8				2	19	10				1	17	6				2	1	10	10	3	10
												etc.														
												etc.														
												etc.														
8	7	3	9	1	6	4	11	8	36	2	9	18	5	9	4	14	10	5	12	2	30	3	9	116	19	8

ANALYSIS OF TRANSFERS (CREDITS)

Bought Ledgers																								Total		
1			2			3			4			5			6			7			8					
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
10	2	7	4	15	9							6	1	7				4	3	7				25	3	6
						2	9	8	1	13	7				1	17	4				1	15	6	7	16	1
												etc.														
												etc.														
												etc.														
17	2	9	12	1	6	4	11	9	1	13	7	5	9	10	12	11	3	7	15	6	4	13	8	65	19	10

NOTE. For analysis of Cash Book, see page 219.

Dr. SALES LEDGER ADJUST-

Particulars	Ledgers																									Total		
	1			2			3			4			5			6			7			8					
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
To Bal. 1 Jan. .	578	1	6	597	4	3	636	15	7	706	2	9	795	14	2	611	10	5	706	2	9	656	11	5	5338	2	10
„ Goods . .	317	4	5	326	9	2	234	10	6	198	3	7	84	11	1	356	13	9	208	2	10	276	12	2	2002	7	6
„ Cash (dishonoured Bills) .							170	11	9										155	9	11				326	1	8
„ Transfers. .	10	1	6	24	9	8	15	11	2	20	1	7	52	3	7	15	4	9	26	4	7	28	4	3	192	1	1
	905	7	5	948	3	1	1107	9	–	924	7	11	932	8	10	983	8	11	1096	–	1	961	7	10	7858	18	1
To Bal. 1 Feb. .	492	8	–	547	1	6	758	9	4	500	13	4	629	6	10	618	7	6	692	13	7	526	17	–	4765	17	1

Left-hand side]

MENT ACCOUNTS *Cr.*

Particulars	Ledgers																									Total		
	1			2			3			4			5			6			7			8					
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
By Cash and Discount .	278	9	2	256	11	9	212	19	10	268	3	10	178	9	2	256	14	7	287	16	2	296	15	8	2036	–	2
„ Bills Receivable & Disct.	94	16	8	112	4	7	116	10	9	124	3	8	107	4	2	58	10	5	76	14	11	105	3	8	795	8	10
„ Returns . .	20	10	8	14	3	9	15	1	6	10	2	5	12	1	9	24	2	8	17	5	7	15	6	10	128	15	2
„ Transfers. .	19	2	11	18	1	6	4	7	7	21	4	8	5	6	11	25	13	9	21	9	10	17	4	8	132	11	10
„ Bal. 31 Jan. .	492	8	–	547	1	6	758	9	4	500	13	4	629	6	10	618	7	6	692	13	7	526	17	–	4765	17	1
	905	7	5	948	3	1	1107	9	–	924	7	11	932	8	10	983	8	11	1096	–	1	961	7	10	7858	18	1

[*Right-hand side*

Sectional Balancing. It should be noted that this term is applied by some accountants to the Self-Balancing principle as adopted by those firms that balance their ledgers in groups instead of separately, two or three ledgers often forming a group. It is obvious that such a system, from the *general* point of view of organization of accounts, is very unsatisfactory; because if a mistake is made, the whole group of ledgers has to be checked in order to find it. This entails much waste of time, as it involves the checking of ledgers which may be already accurate. There are, however, countervailing trade advantages or private reasons for adopting such methods.

Contra Account. By this term is meant that we have both bought from, and sold to, the same person; and that while he is our *debtor* for the goods we have sold to him, and his account appears in the Sales Ledger, yet he is also our *creditor* for the goods we have bought from him, and his other account, called the "contra" account, appears in the Bought Ledger. In some cases the person concerned insists on the accounts being treated separately, and will

Dr. BOUGHT LEDGER ADJUSTMENT ACCOUNTS *Cr.*

[*Left-hand side*]

Particulars	Ledgers																								Total		
	1			2			3			4			5			6			7			8					
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
To Cash and Discount . .	197	5	6	242	10	9	216	10	5	178	11	2	234	1	10	170	16	6	207	13	9	195	15	4	1643	5	3
" Bills Payable and Discount .	87	3	9	65	12	2	76	4	3	89	9	5	101	4	2	96	2	8	105	4	10	73	16	5	694	17	8
" Returns . .	27	1	6	12	3	9	15	1	7	24	3	9	37	13	6	29	1	11	19	6	8	25	11	7	190	4	3
" Transfers . .	8	7	3	9	1	6	4	11	8	36	2	9	18	5	9	4	14	10	5	12	2	30	3	9	116	19	8
" Bal. 31 Jan. .	241	13	10	270	19	8	495	17	11	368	19	3	292	11	6	425	11	6	448	–	1	348	8	7	2892	2	4
	561	11	10	600	7	10	808	5	10	697	6	4	683	16	9	726	7	5	785	17	6	673	15	8	5537	9	2

Particulars	Ledgers																								Total		
	1			2			3			4			5			6			7			8					
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
By Bal. 1 Jan. . .	346	5	2	297	11	8	516	7	10	493	2	11	385	6	11	493	5	8	516	6	9	381	15	2	3430	2	1
" Goods . .	198	3	11	285	4	2	287	6	3	202	9	10	291	18	5	219	10	6	259	4	5	287	6	10	2031	4	4
" Cash . . .				5	10	6							2	1	7				2	10	10				10	2	11
" Transfers . .	17	2	9	12	1	6	4	11	9	1	13	7	5	9	10	12	11	3	7	15	6	4	13	8	65	19	10
	561	11	10	600	7	10	808	5	10	697	6	4	684	16	9	725	7	5	785	17	6	673	15	8	5537	9	2
By Bal. 1 Feb. .	241	13	10	270	19	8	495	17	11	368	19	3	292	11	6	425	11	6	448	–	1	348	8	7	2892	2	4

[*Right-hand side*

not have one set off against the other. In other cases, settlement is effected by deducting one account from the other, and paying, or being paid, only the balance, according as the latter is due by us or to us. Hence the smaller account must be transferred to the greater, either the Bought Ledger Account to the Sales Ledger Account, or the Sales Ledger Account to the Bought Ledger Account, as the case may be. These transfers must be passed through the Journal and analysed into their proper columns, so that the Adjustment Accounts may be correctly constructed; for all such transfers must be recorded therein.

Contra Balances in Ledgers. Strictly speaking, the Bought Ledger should contain all *credit* balances, and the Sales Ledger all *debit* balances, yet in practice it sometimes happens that in some of the Bought Ledger accounts there are sundry small *debit* balances, and also that in the Sales Ledger accounts there are sundry small *credit* balances. Take the case of the Sales Ledger. Accounts often include charges for packages. An account is settled in cash, and subsequently when the packages are empty they are returned and

ANALYSIS OF CASH BOOK (RECEIPTS SIDE)

Sales Ledgers																								Bought Ledger			General or Im- personal Ledger			Special Items			Total		
1			2			3			4			5			6			7			8														
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
29	15	3				84	7	11				46	19	1	92	11	8				27	3	11				78	4	6				359	2	4
			86	13	9				49	1	8				27	16	10	72	14	9				5	10	6				1,000	–	–	1,241	17	6
												etc.																							
												etc.																							
												etc.																							
278	9	2	256	11	9	212	19	10	268	3	10	178	9	2	256	14	7	287	16	2	296	15	8	10	2	11	159	14	2	1,000	–	–	3,205	17	3

ANALYSIS OF CASH BOOK (PAYMENTS SIDE)

Bought Ledgers																								Sales Ledger			General or Im- personal Ledger			Special Items			Total		
1			2			3			4			5			6			7			8														
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
14	2	9				27	12	3				85	16	9				72	13	10							27	2	8				227	8	3
			78	16	5				57	14	8				95	1	7				54	13	6	170	11	9	63	4	2				520	2	1
												etc.																							
												etc.																							
												etc.																							
197	5	6	242	10	9	216	10	5	178	11	2	234	1	10	170	16	6	207	13	9	195	15	4	326	1	8	457	10	2				2,426	17	1

have to be credited. At balancing time there may be no debit in the account to offset this credit. Mistakes are occasionally found after accounts have been settled, and their rectification sometimes involves the crediting of such accounts with a certain amount. These small credit balances are usually deducted from the total Debtors, and only the net amount of the Debtors shown in the Balance Sheet. And likewise with the Bought Ledger, the total of the small debit balances appearing in it is generally deducted from the Creditors, and only the net amount of the Creditors shown in the Balance Sheet. Some accountants, however, object to this on principle. In the Adjustment Accounts, therefore, they bring down both debit and credit balances, and also show them on the Balance Sheet. For example, suppose the Bought Ledger balances to amount to £3,465 15s. 8d. after deducting £9 14s. 10d., the total of sundry *debit* balances therein, and the Sales Ledger balances to amount to £8,457 10s. 11d. after deducting £5 6s. 8d., the total of sundry *credit* balances therein, the Adjustment Accounts in the General Ledger would appear as follows—

Dr. BOUGHT LEDGER ADJUSTMENT ACCOUNT (OR CONTROL ACCOUNT) *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. 1	To Balance . . .	9	14	10	19— Jan. 1	By Balance . . .	3,475	10	6

Dr. SALES LEDGER ADJUSTMENT ACCOUNT (OR CONTROL ACCOUNT) *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. 1	To Balance . .	8,462	17	7	19— Jan. 1	By Balance . . .	5	6	8

And the Balance Sheet would be as under—

BALANCE SHEET

Liabilities.	£	s.	d.	£	s.	d.	*Assets.*	£	s.	d.	£	s.	d.
Sundry Creditors as per Bought Ledger .	3,475	10	6				Sundry Debtors as per Sales Ledger . .	8,462	17	7			
Add Sundry Cr. bal. in Sales Ledger .	5	6	8				*Add* Sundry Dr. bal. in Bought Ledger .	9	14	10			
				3,480	17	2					8,472	12	5

Under the other method it would appear—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors .	3,465	15	8	Sundry Debtors . .	8,457	10	11

As can be seen, the final result in each case is a *net* debit of £4,991 15s. 3d., so that the double entry is not affected in any way. But by the two balances method we show the true financial position, i.e. the *exact* amount of Debtors and Creditors. And this is the avowed reason for its adoption.

Private Ledger. It will be noticed in the worked example that the Private Ledger contains only the Capital and Drawing Accounts. In practice, however, this Ledger, which is provided with a lock and key and is sometimes kept by the chief clerk or accountant who occupies a confidential post, often includes other accounts of a private nature, such as Loans, and in some cases the Bank balance, and the Stock. Without knowing the value of the Stock at the commencement and at the end of a period, it would be impossible for any clerk to arrive at the gross or net profit, even though he had access to all the other information. An earlier method of division of accounts, which is still to be found in many businesses, is to keep all the nominal and real accounts in the Private Ledger. Another method is to keep all the expense accounts in a Nominal Ledger, and to put all the real or property accounts, e.g. Plant and Machinery, Bills, Stock, etc., into the Private Ledger. The modern tendency, however, is to group both the nominal and real accounts into one General or Impersonal Ledger.

Private Ledger Account. Where it is not desired that any clerk shall have access to the Private Ledger, an Adjustment Account, called Private Ledger Account, is opened at the end of the General Ledger, and credited with the net balance of all the accounts in the Private Ledger. All items that should be posted to the Private Ledger are then debited or credited to the Private Ledger Account instead. The balance of the Private Ledger Account thus enables the Trial Balance to be completed without reference to the Private Ledger itself. At balancing time the professional accountant, who makes up the Profit and Loss Account and Balance Sheet, analyses the Private Ledger Account and posts the details to the proper accounts in the Private Ledger. He closes the Private Ledger Account for the past period by writing "*To Transfer to Private Ledger,*" and re-opens it by writing " *By Balance* " the net amount for the new period.

The following example will serve as an illustration of the above procedure—

In General Ledger

Dr. PRIVATE LEDGER ACCOUNT *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Feb. 15	To Cash . . .	100	–	–	Jan. 1	By Balance . . .	2,175	2	6
Apr. 20	" " . . .	100	–	–	June 30	" Cash . . .	1,000	–	–
June 25	" " . . .	100	–	–	Dec. 31	" Cash Book totals .	6,792	14	3
Sept. 17	" " . . .	100	–	–	" 31	" Interest . .	275	–	–
Nov. 20	" " . . .	100	–	–					
Sept. 25	" " (R. Brown) .	500	–	–					
Dec. 31	" Cash Book totals .	7,597	16	5					
" 31	" Transfer to Private Ledger . . .	1,645	–	4					
	£	10,242	16	9		£	10,242	16	9
					Jan. 1	By Balance . .	2,834	19	11

In Private Ledger

Dr. BANK *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. 1	To Balance	1,200	–	–	19— Jan. to Dec.	By Cash Book totals	6,792	14	3
Jan. to Dec.	„ Cash Book totals	7,597	16	5	Dec. 31	„ Balance c/d	2,005	2	2
		£8,797	16	5			£8,797	16	5
19— Jan. 1	To Balance b/d	2,005	2	2					

Dr. LOAN FROM R. BROWN *Cr.*

		£	s.	d.			£	s.	d.
19— Sept. 25	To Cash	500	–	–	19— Jan. 1	By Balance	1,000	–	–
Dec. 31	„ Balance c/d	500	–	–					
		£1,000	–	–			£1,000	–	–
					19— Jan. 1	„ Balance b/d	500	–	

Dr. DRAWINGS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Cash	500	–	–	19— Dec. 31	By Capital A/c	500	–	–

Dr. STOCK *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. 1	To Balance	2,624	17	6	19— Dec. 31	By Trading A/c	2,624	17	6
Dec. 31	To Trading A/c	2,289	15	5					

Dr. CAPITAL ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19— Dec. 31	To Drawing A/c	500	–	–	19— Jan. 1	By Balance	5,000	–	–
„ 31	„ Balance c/d	6,629	17	6	June 30	„ Cash	1,000	–	–
					Dec. 31	„ Interest	275	–	–
					„ 31	„ Profit and Loss	854	17	6
		£7,129	17	6			£7,129	17	6
					19— Jan. 1	By Balance b/d	6,629	17	6

QUESTIONS ON CHAPTER VI

A

1. Define the term " self-balancing ledger."
2. State briefly the object of self-balancing ledgers.
3. What is meant by " sectional balancing " ?
4. How are ledgers made self-balancing?
5. Explain the nature and construction of a " Control Account."

6. State briefly the principle of proof underlying the " Control Account."
7. Submit *pro forma* Control Accounts for proving the Bought Ledger
8. Submit *pro forma* Control Accounts for proving the Sales Ledger.
9. Explain the connection between Adjustment Accounts and Total Checking Accounts.
10. What objections are raised against the practice of having " contra " Adjustment Accounts?

B

1. Submit rulings of the Purchases and Sales Books where the nature of the business necessitates departmental analysis as well as self-balancing ledgers.
2. Submit rulings of a Cash Book suitable for a business that divides its ledgers into sections (*a*) alphabetically, (*b*) departmentally.
3. Submit *pro forma* Journal entries for constructing the Adjustment Accounts relative to the Bought Ledger.
4. Submit *pro forma* Journal entries for constructing the Adjustment Accounts relative to the Sales Ledger.
5. Supposing there are several small *debit* balances in the Bought Ledger, how should they be treated in preparing the Adjustment Account?
6. Supposing there are sundry small *credit* balances in the Sales Ledger, how will they affect the preparation of the Adjustment Account?
7. How will personal items in the Petty Cash Book affect the Adjustment Accounts?
8. How are *contra* accounts in the Bought Ledger dealt with when preparing the Sales Ledger Adjustment Accounts?
9. What is meant by a " Special Transfer Journal " for use with self-balancing ledgers? Submit *pro forma* ruling of such a book, and explain the method of procedure in connection therewith.
10. When the number of ledgers in use is too large for analytical columns to be provided in the Cash and subsidiary books, how is the material for Adjustment Accounts obtained.

C

1. What restricted meaning is sometimes applied to the term " sectional balancing "? What advantages and disadvantages are there with regard to the procedure comprehended under this restricted meaning?
2. What is meant by the term " *contra* account "?
3. How are *contra* accounts usually settled? What exceptions are there?
4. How does the transfer of *contra* accounts affect the Adjustment Accounts for the Bought and Sold Ledgers respectively? Should such transfers be made direct from one ledger account to the other? Give reasons for your answer.
5. How are the sundry *debit* balances in a Bought Ledger, and the sundry *credit* balances in a Sales Ledger, sometimes shown in the Balance Sheet, and why? Give examples. How do such balances arise?
6. What differences of opinion exist in practice with regard to the question as to what accounts should be kept in the Private Ledger?
7. What is the modern tendency with regard to the ledgering of nominal and real accounts?
8. How can the Bank Balance be kept from the knowledge of the staff? Why is the Stock Account sometimes kept in the Private Ledger?
9. Explain how a set of books may be kept and balanced by means of a monthly trial balance without giving the book-keeper access to the Private Ledger.
10. Give an example of the working of a Private Ledger Account in the General Ledger, and show the corresponding accounts in the Private Ledger.

EXERCISE VI

1. What do you understand by the "sectional" system of balancing Ledgers?

In the business of X, Y, Z & Co., the following books are in use: 1 "Bought" Ledger, 2 "Sold" Ledgers ("Town" and "Country"), 1 "Private and Nominal" Ledger, 1 "Bank" Cash Book, 1 Petty Cash Book, 2 Sales Books ("Town" and "Country"), 1 Purchases Book, and 1 Journal. Explain briefly what alterations (if any), it would be necessary to effect in these books in order to introduce the "sectional" system of balancing. (*London Chamber of Commerce.*)

2. The following books are in use in a printing business, and are properly kept upon the ordinary double-entry system: Cash Book (bank items only), Petty Cash Book (for all *cash* payments), Purchases Journal, Sales Journal, two Personal Ledgers ("A," town debtors, and "B," country debtors), Bought Ledger, and Nominal Ledger.

You are asked to re-arrange the system of book-keeping so that every ledger may be self-balancing. How would you effect this? (*London Chamber of Commerce.*)

3. Briefly describe the uses of the Journal; and give particulars of the entries you would expect to find in the Journal of a business in which the "Sales" and "Bought" Ledgers were balanced independently, by means of adjustment accounts. (*London Chamber of Commerce.*)

4. John Garside keeps his "Sales" Ledger upon the "self-balancing" principle.

Prepare the necessary "adjustment account" as on 31st January, from the undermentioned particulars—

Jan.	1.	Total debtors' debit balances at this date were	£12,542
„	31.	Total goods sold to customers for the month	21,658
„	31.	Total goods returned by customers for the month	942
„	31.	Total cash received from customers for the month	15,621
„	31.	Total discount allowed to customers for the month	968
„	31.	Total acceptances received from customers during the month	3,471
„	31.	Total acceptances dishonoured by customers during the month	542

(*Royal Society of Arts.*)

5. Give suitable rulings for the Sales Journal of a wholesale business comprising three departments, viz.: "Mantles," "Dress Materials," and "Felts." There are two Sales Ledgers in use, viz.: "Town" and "Country," and each Ledger is kept upon the self-balancing principle. (*London Chamber of Commerce.*)

6. Rule a form of Cash Book which would be necessary in a business in which a General Ledger, two Bought Ledgers and two Sold Ledgers are in use, all these Ledgers being "self-balancing." Explain briefly how you would put into practice the principles of "self-balancing" ledgers in connection with this Cash Book. (*London Chamber of Commerce.*)

7. Illustrate the sectional system of self-balancing Ledgers by posting direct from the exercise given below, all the items necessary to form a complete Sales Ledger, render it self-balancing, and take out a Trial Balance.

Exercise

On 1st March, Samuel Sparrow, Merchant, had Cash in hand, £360 10s. 6d.; Goods on hand, £450 15s. Debtors: James Crow, £220 12s. 6d.; Thomas Finch, £150 17s. 6d.; John Jay, £270 4s. 6d. Creditors: Louis Lark, £180 17s. 9d.; Robert Rook, £200 2s. 3d.

			£	s.	d.
Mar.	1.	Samuel Sparrow drew Cash for Self	20	–	–
„	2.	Received Cash from J. Crow	210	–	–
„	2.	Discount allowed in addition	10	12	6
„	3.	Paid for Postages	1	7	6
„	4.	Cash Purchases	210	5	3
„	6.	Sold Goods to J. Crow	175	6	8
„	6.	Charged him for Carriage paid on above Goods	1	13	4
„	7.	Received Cash of T. Finch	147	–	–
„	7.	Discount allowed in addition	3	17	6
„	8.	Paid Rates	4	15	–
„	9.	Cash Sales	130	2	6
„	10.	T. Finch bought Goods	180	13	4
„	11.	Sales to L. Lark	50	–	–
„	13.	Paid L. Lark, Cash	127	–	–
„	13.	Received Discount from him	3	17	9
„	14.	Sales to Hy. Robin	135	11	8
„	15.	Purchases from L. Lark	215	10	6
„	16.	Paid R. Rook, Cash	195	–	–
„	16.	Received Discount from him	5	2	3
„	17.	Received Cash from Hy. Robin	35	11	8
„	18.	J. Crow bought Goods	28	10	–
„	20.	R. Rook sold me Goods	165	6	–
„	21.	Received Cash of John Jay in full settlement	255	10	–
„	21.	Wrote off his Balance as Bad Debt	14	14	6
„	22.	Bought Goods of Charles Wren	54	2	6
„	23.	Received Cash for a Bad Debt written off two years ago	27	15	–
„	24.	Purchases from R. Rook	45	10	2
„	25.	Paid R. Rook Cash	100	–	–
„	27.	Received Cash from J. Crow	77	–	–
„	28.	Paid Wages	16	17	6
„	29.	Paid Rent	25	–	–
„	31.	Interest on Capital	4	10	–
„	31.	Stock on hand	529	14	9

(*National Union of Teachers.*)

8. The undermentioned particulars have been extracted from the books of Messrs. James Ogden & Co., who keep only one Sales Ledger. You are required to prepare the relative "Sales Ledger" and "General Ledger" Adjustment Accounts as on 31st December.

		£	s.	d.
June 30.	Debtors' Balances	28,394	12	6
Dec. 31.	Transactions for the half-year to date—			
	Sales to Drs.	58,421	10	8
	Returns from Debtors	691	12	–
	Cash received from Debtors	41,344	8	6
	Discounts allowed to Debtors	1,504	9	3
	Acceptances received from Debtors	4,210	1	2
	Acceptances returned dishonoured	550	–	–
	Bad Debts written off	942	10	–
	Sundry charges debited to Debtors	29	4	6

(*Chartered Accountants.*)

9. From the following particulars, write up A. Allott's Bought Ledger for the month of January, and make it self-balancing. Take out a Trial Balance in order to prove the accuracy of your work.

Ledger balances as at 1st January: S. Smith, £206 17s. 8d.; B. Brown, £156 15s. 2d.; J. Jones, £78 19s. 11d.; T. Thompson, £54 3s. 9d.; H. Hewitt, £168 13s. 6d.; L. Lovejoy, £202 2s. 6d.

His transactions for the month were as follows—

			£	s.	d.
Jan.	3.	Bought of S. Smith, Goods	76	13	2
„	5.	Paid L. Lovejoy (Discount £9 4s. 9d.)	175	10	10
„	10.	Bought of B. Brown, Goods	134	16	8
„	11.	Returned Goods to J. Jones	13	14	8
„	12.	Paid H. Hewitt on account	50	–	–
„	14.	Accepted B. Brown's Draft (Discount £3 18s. 6d.)	74	12	–
„	17.	Bought of J. Jones, Goods	55	2	11
„	19.	Paid T. Thompson (Discount £2 14s. 2d.)	51	9	7
„	21.	Bought of T. Thompson, Goods	66	4	9
„	23.	Paid J. Jones on account	40	–	–
„	24.	Bought of H. Hewitt, Goods	173	12	3
„	25.	Paid B. Brown (Discount £3 18s. 3d.)	74	6	5
„	26.	Accepted H. Hewitt's Draft (Discount £3 5s. 9d.)	62	9	9
„	28.	Returned Goods to L. Lovejoy	17	6	11
„	30.	Bought of L. Lovejoy, Goods	157	6	10
„	31.	Paid S. Smith (Discount £10 6s. 11d.)	196	10	9

10. From the following particulars write up P. Zucker's Bought Ledger for the month of March, and make it self-balancing. Prove the accuracy of your work by drawing out a Trial Balance as at the end of the month.

The Creditors' balances as at 1st January were: L. Luke, £265 16s. 4d.; M. Matthew, £437 9s. 2d.; J. John, £185 18s. 11d.; M. Mark, £206 16s. 10d.; P. Paul, £147 18s. 9d.; S. Silas, £356 6s. 8d.

Zucker's transactions for the month were as follows—

			£	s.	d.
Mar.	4.	Bought of L. Luke, Goods	247	9	3
„	6.	Paid to S. Silas on account	80	–	–
„	11.	Bought of M. Matthew	65	14	8
„	12.	Accepted L. Luke's Draft (Discount, £8 0s. 10d.)	152	16	–
„	13.	Returned Goods to P. Paul	27	10	6
„	13.	Paid P. Paul (Discount, £6 0s. 5d.)	114	7	10
„	18.	Bought of J. John, Goods	73	10	2
„	20.	Paid M. Mark (Discount, £10 6s. 10d.)	196	10	–
„	22.	Bought of M. Mark, Goods	127	6	11
„	24.	Paid J. John (Discount, £9 5s. 11d.)	176	13	–
„	25.	Bought of P. Paul, Goods	48	15	6
„	25.	Accepted S. Silas' Draft (Discount, £10 6s. 10d.)	196	9	1
„	26.	Paid M. Matthew on account	100	–	–
„	27.	Returned Goods to M. Matthew	36	15	2
„	30.	Bought of S. Silas, Goods	165	18	10
„	31.	Paid L. Luke on account	50	–	–

11. You are required to write up, from the following particulars, E. Brockwell's Sales Ledger for the month of July. Make it self-balancing, and prove the accuracy of your work by means of a Trial Balance at the end of the month.

The opening Ledger balances on 1st July were: B. Beard, £126 7s. 4d.; C. Cowan, £137 10s. 11d.; D. Doggett, £85 4s. 6d.; E. Eley, £97 13s. 10d.; F. Foxwell, £175 15s. 2d.; G. Graves, £186 4s. 8d.

The following were his transactions for the month—

			£	s.	d.
July	3.	Sold Goods to B. Beard	62	10	8
„	4.	G. Graves returned Goods	23	19	11
„	5.	Received from G. Graves (Discount, £8 2s. 3d.)	154	2	6
„	6.	F. Foxwell accepted our Draft (Discount, £4 15s. 9d.)	90	19	5
„	10.	Sold Goods to C. Cowan	74	2	11
„	12.	Received Cash from F. Foxwell on account	50	–	–
„	17.	Sold Goods to D. Doggett	165	17	4
„	19.	Received from E. Eley (Discount, £4 17s. 8d.)	92	16	2
„	21.	Sold Goods to E. Eley	120	13	6
„	23.	Received from D. Doggett (Discount, £4 5s. 3d.)	80	19	3
„	23.	C. Cowan returned Goods	16	12	9
„	24.	Sold Goods to F. Foxwell	88	18	8
„	25.	Received from C. Cowan (Discount, £2 17s. 6d.)	54	12	8
„	26.	B. Beard accepted our Draft (Discount, £3 6s. 10d.)	63	9	10
„	30.	Sold Goods to G. Graves	99	19	9
„	31.	Received from B. Beard on account	40	–	–

12. From the following particulars write up G. Gardener's Sales Ledger for the month of October. Make it self-balancing, and verify the accuracy of your work by drawing up a Trial Balance as at the end of the month.

The Debtors' balances on 1st October were: A. Andrews, £174 10s. 6d.; B. Binnie, £178 15s. 5d.; C. Carter, £168 16s. 8d.; O. Orford, £207 13s. 2d.; P. Peel, £126 15s. 11d.; T. Turner, £185 10s. 10d.

Gardener's transactions for the month were as follows—

			£	s.	d.
Oct.	4.	Sold Goods to A. Andrews	185	12	11
„	6.	Received from T. Turner on account	70	–	–
„	7.	A. Andrews accepted our draft (Discount, £4 6s. 9d.)	82	8	5
„	8.	P. Peel returned Goods	15	14	7
„	11.	Sold Goods to B. Binnie	196	10	10
„	13.	Received from P. Peel (Discount, £5 11s. 1d.)	105	10	3
„	18.	Sold Goods to C. Carter	156	11	5
„	20.	Received from O. Orford (Discount, £10 7s. 8d.)	197	5	6
„	22.	Sold Goods to O. Orford	163	12	7
„	23.	B. Binnie returned Goods	16	10	8
„	24.	Received from C. Carter (Discount, £8 8s. 10d.)	160	7	10
„	25.	Sold Goods to P. Peel	199	19	9
„	27.	Received from B. Binnie (Discount, £8 2s. 3d.)	154	2	6
„	29.	T. Turner accepted our draft (Discount, £3 15s. 8d.)	71	17	10
„	31.	Sold Goods to T. Turner	187	17	8
„	31.	Received from A. Andrews on account	50	–	–

13. On 1st January, Graham and Winder, who were equal partners in a business, possessed the following Assets and Liabilities: Stock, £2,750; Cash, £1,725; Plant and Machinery, £2,550; Creditors, £1,720; Debtors, £2,645. The Debtors and Creditors were as follows—

Debtors.		*Creditors.*	
Moore	£574	Horsham	£236
Roberts	206	Piggott	350
Harrison	495	Manton	272
Squires	369	Coles	314
Farrow	573	Day	285
Lonsdale	428	Bullen	263

The following were their transactions for the month of January—

	Sales	Cash Received	Discount Allowed
	£	£	£
Moore . .	276	546	28
Roberts . .	365	196	10
Harrison . .	198	466	29
Squires . .	457	351	18
Farrow . .	584	545	28
Lonsdale .	343	407	21

	Purchases	Cash Paid	Discount Received
Horsham . .	274	225	11
Piggott . .	298	333	17
Manton . .	237	259	13
Coles . .	196	299	15
Day . .	189	271	14
Bullen . .	285	250	13
Sundry Exs. .		263	
Graham . .		35	
Winder . .		35	
Salaries . .		75	
Wages . .		125	

Record the above transactions in their proper Ledgers, make them self-balancing, and extract Trial Balances. Close the books as at 31st January. Reserve £100 for Bad Debts, £125 for Outstanding Sundry Expenses, and provide for Depreciation of Plant and Machinery at the rate of 12 per cent per annum. Charge also Interest on Capital at 5 per cent per annum. Stock in hand 31st January was £3,150.

14. H. Holland is in business, and on 1st January his assets and liabilities are: Cash, £50; Bank, £870; Stock, £1,000; Bills Receivable, £375; Furniture and Fixtures, £200; Plant and Machinery, £1,700; A. Arthur, *Dr.*, £275 16s. 4d.; B. Brown, *Dr.*, £361 14s. 2d.; F. Flower, *Dr.*, £250 12s. 2d.; C. Cook, *Dr.*, £873 5s. 11d.; Bills Payable, £420; D. Dunlop, *Cr.*, £174 13s. 2d.; G. Garnet, *Cr.*, £127 16s. 10d.; E. Ernest, *Cr.*, £86 15s. 9d.; F. Franklin, *Cr.*, £217 6s. 10d.

His transactions for the month are as follows—

			£	s.	d.
Jan.	4.	Sold to A. Arthur, Goods	359	8	7
„	4.	Paid Wages	27	13	6
„	7.	Bought from D. Dunlop, Goods	612	1	7
„	10.	Received from B. Brown (Discount, £18 1s. 8d.) .	343	12	6
„	11.	Paid Wages	31	14	8
„	13.	Sold to B. Brown, Goods	246	10	2
„	13.	Paid D. Dunlop (Discount, £8 14s. 8d.) . . .	165	18	6
„	14.	Bought from E. Ernest, Goods	459	3	8
„	15.	Received from A. Arthur (Discount, £13 15s. 9d.) .	262	–	7
„	15.	B. Brown returned Goods	17	16	2
„	15.	F. Flower accepted our Draft (Discount, £12 10s. 7d.) Bill No. 59, dated 13th Jan. at 2 m/d	238	1	7
„	15.	Paid Acceptance No. 86	270	–	–
„	16.	Bill Receivable No. 56 duly met at Bank . .	120	–	–
„	16.	Paid to E. Ernest (Discount, £4 6s. 9d.) . . .	82	9	–
„	18.	Sold to F. Flower, Goods	209	12	4
„	18.	Paid Wages	42	16	9
„	19.	Paid Acceptance No. 85	150	–	–
„	21.	Bought from F. Franklin, Goods	275	10	6

			£	s.	d.
Jan.	22.	Accepted G. Garnet's Draft (Discount, £6 7s. 10d.) Acceptance No. 87, dated 21st Jan., at 2 m/d	121	9	–
„	22.	Received from C. Cook (Discount, £43 13s. 4d.)	829	12	7
„	23.	Paid F. Franklin (Discount, £10 17s. 4d.)	206	9	6
„	23.	Received payment of Bill No. 57	155	–	–
„	24.	Bill No. 54, accepted by A. Arthur, returned by Bank dishonoured, noting charges, 7s. 6d.	155	7	6
„	24.	Bought from G. Garnet, Goods	216	12	2
„	24.	Returned to F. Franklin, Goods	10	12	8
„	25.	Paid Wages	30	6	10
„	26.	Bill Receivable No. 58 duly met	100	–	–
„	27.	Sold to C. Cook, Goods	316	15	8
„	27.	Drew for Self	50	–	–
„	31.	Ready Money Purchases	24	15	2
„	31.	Paid Salaries	42	10	8
„	31.	Paid Rent, Rates, and Taxes	27	19	6
„	31.	Paid Trade Expenses	17	4	11
„	31.	Ready Money Sales for month	27	13	5

You are required to record the above transactions in the proper subsidiary books, post to separate Ledgers and make them self-balancing, and to verify the accuracy of your work by extracting Trial Balances as at the end of the month.

15. Rework the model exercise on pages 195–7, but *halving* all the figures given. Ignore fractions of a penny.

16. Rework the model exercise mentioned above, but *doubling* all the figures given.

REVISION EXERCISE VI

1. What is the difference (if any) between "Fixed" and "Floating" assets?

Designate to which class the undermentioned assets, the property of a boot manufacturer, belong—

Book debts; stock-in-trade; consols £200; plant and machinery; freehold land; bills receivable; goodwill; patents. (*London Chamber of Commerce.*)

2. What is the difference between a Trial Balance and a Balance Sheet?

The *Dr.* balance of a Personal Account amounting to £250 has been carried to the Revenue Account in error. How will this affect—

(*a*) The Trial Balance, and (*b*) the Balance Sheet?

(*National Union of Teachers.*)

3. Richard Scott bought of the "Yorkshire Coal Company" 520 tons of Silkstone Coal, net in trucks at the Colliery, 12s. 6d. per ton, with 9d. per ton added for waggon hire. He paid one-half the amount in cash, and gave his acceptance at three months, dated 1st July, for the balance plus 5 per cent Discount on the Bill, and 1 per cent Commission. Show the entries as they would appear in the books of the Colliery Company. (*London Chamber of Commerce.*)

4. What is a Profit and Loss Account? What is the nature of the various items of which it is composed, and on which side are such items recorded, and how is the final balance disposed of? (*London Chamber of Commerce.*)

5. Make out the Trading Account of the Flyaway Bicycle Co. from—

Jan.	1.	Stock of Finished Machines	£9,600
„	1.	Stock of Raw Materials	2,500
Dec.	31.	Materials purchased during year	12,500
„	31.	Productive Wages paid	16,500
„	31.	Manufacturing Expenses	4,600

Dec. 31.	Sundry Branch Expenses	£8,000
„ 31.	Travellers' Salaries	3,000
„ 31.	Agents' Commissions	1,800
„ 31.	Bad Debts	1,650
„ 31.	Depreciation of Machinery and Plant	1,250
	During the year 10,000 Machines were sold, realizing in the aggregate	105,000
	On the 31st December, the cost price value of the Raw Material on hand was	2,200
	And the Stock of 460 Finished Machines on hand	3,680

After making out the Trading Account, prepare a Profit and Loss Account. Also state what the Gross Profit on the year's working was. (*West Riding of Yorkshire.*)

6. Record the following in the books of both parties: On 1st March, I. Iron accepts a three months' bill for £126 10s. 6d. drawn on him by S. Steel for the latter's benefit. Steel discounts the bill at the rate of 3½ per cent, and at maturity forwards Iron a cheque with which to meet the bill.

7. From the following particulars draw up, in two forms, the Balance Sheet of A. Allott and J. Jones, who are equal partners, as at 31st December—

Bills Payable, £247.
Bills Receivable, £844.
Stock-in-trade, £1,200.
Sundry Creditors, £1,140.
Furniture and Fixtures, £120, *less* depreciation at 5 per cent per annum.
Sundry Debtors, £2,800.
A. Allott, Capital 1st January, £3,440.
J. Jones, Capital 1st January, £3,440.
Cash in hand, £29.
Cash at Bank, £820.
Cash on Deposit, £150.
Loan from N. Notley, £750.
Premises, £2,050, *less* depreciation, £50.
Outstanding Expenses, £32.
Plant and Machinery, £1,400, *less* depreciation at 10 per cent per annum.
Unexpired Insurance, Telephone Rent, and Trade Subscriptions, £27.
Goodwill, £730, *less* amount written off, £200.
Investments, £500 Consols at 87.
Consignment Account, £450.
Reserve for Bad Debts, £140.
Reserves for Discount—on Debtors, £133, on Creditors, £57.
Partners' Drawings, £500 each.
Net Profit for year, after charging the above reserves and depreciation and Interest on Capital at 5 per cent, £2,050.

8. N. Norton has the following transactions with G. Gregory—

19..
Jan. 1. Sold Goods to Gregory, £280.
Feb. 15. Received Cash from Gregory, £100.
Mar. 2. Bought Goods from Gregory, £690.
„ 3. Accepted Gregory's draft at 1 m/d for £200.
Apr. 11. Cash paid to Gregory, £200.
„ 30. Goods sold to Gregory, £232, due end of May.
May 11. Bought Goods from Gregory, £170.
„ 31. Sold Goods to Gregory, £250.
June 15. Bought Goods from Gregory, £290, due end of July.

Make out an Account Current to be rendered by N. Norton at 30th June, bringing interest into account at the rate of 5 per cent per annum.

9. A merchant has bought goods due as under—

£440 due 18th April.
£250 „ 36 days after 18th April.
£400 „ 73 „ „ „ „
£700 „ 91 „ „ „ „

He wishes to pay for them on the average due date. What sum must he pay, and when must he pay it?

10. J. Walters and B. Dove are in partnership as Joiners and Timber Merchants.

The following balances were extracted from their books as on 30th June—

	£		£
Purchases—		B. Dove, Drawing A/c	1,000
Timber	13,926	Discount A/c (*Dr.* balance)	91
Ironmongery and General Stores	421	Mouldings Sales	9,766
		Weather Bar Sales	1,248
Painters' and Polishers' Materials	197	Bad Debt Reserve	207
		Advertising	189
Fuel and Oil	413	Office Salaries	851
Manufactured Goods	159	Interest and Commission	374
Land and Buildings	14,661	Postage and Telegrams	132
Machinery and Plant	6,743	Rent, Rates, and Taxes	513
Boiler and Heating Apparatus	498	Legal Expenses & Audit Fee	127
Repairs and General Charges	177	Travelling Expenses	409
Loose Tools as on 1st July	1,524	Purchases Returns	721
Freight	1,261	Sales Returns	1,624
Stationery & Office Expenses	350	Stock as on 1st July	8,742
Electric Light	92	Sundry Debtors	12,448
Stable Expenses	234	„ Creditors	9,693
Joinery Sales	25,747	Bills Receivable	271
Wages	12,975	Cash at Bank	2,678
Catalogues and Price Lists at cost	122	„ in hand	128
		J. Walters, Capital A/c	20,231
J. Walters, Drawing A/c	1,500	B. Dove, Capital A/c	17,217

Before closing the books, the following adjustments are necessary—

(1) Write off £500 from the Land and Buildings Account for depreciation on buildings.

(2) Write off 10 per cent depreciation from the Machinery and Plant and Boiler and Heating Apparatus Accounts.

(3) Make the Reserve for Bad Debts up to £500.

(4) Charge 5 per cent interest on Capital but not on Drawings.

(5) Write off the whole of the cost of the catalogues and price lists.

The Stock on 30th June was valued by the partners at £11,247, and the Loose Tools at £1,312. The profits are shared as to three-fifths to Walters and as to two-fifths to Dove.

Bills Receivable, not due until after 30th June, amounting to £1,114, had been discounted prior to that date.

You are required to prepare Trading and Profit and Loss Accounts for the year ended 30th June, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

CHAPTER VII

RESERVES FOR BAD DEBTS AND DISCOUNTS

Bad Debts Reserve. This is a charge made against profits in order to provide for possible bad debts.

How the Amount of the Reserve is Ascertained. The amount of the Reserve is either the total of a specially compiled list of doubtful amounts, or a fixed percentage of the total debtors, or, in some cases a small percentage (½ per cent and upwards) of the turnover or total sales, based on past experience. The bad debts, however, usually stand in direct relation to the debtors and not to the total sales, and the last-named method is only applicable where the debts are very numerous, and where the Bad Debts may be considered to be uniformly in proportion to the trade done.

Object of Making a Reserve. The object of making the Reserve is in order to show the debtors on the Balance Sheet at their true value if possible. It is misleading to show, say, £5,000 Debtors as an asset on the Balance Sheet if at least 5 per cent of them, namely, £250, are possible bad debts. On the Balance Sheet, therefore, the Reserve, although a credit balance, is not placed on the liabilities side, but is shown on the *assets* side, as a deduction from the debtors.

Methods of Creating a Reserve. Two methods are in use with regard to the construction of the Reserve—

1. The amount of the Reserve is debited direct to Profit and Loss Account, and credited to a Bad Debts Reserve Account.

2. The amount of the Reserve is debited to the Bad Debts Account, and credited to a Bad Debts Reserve Account. In some cases, the Reserve is not placed in a separate account, but is brought down as a credit balance in the Bad Debts Account itself. This method (though quite usual commercially) is puzzling to a student, as it leaves room for doubt whether the item " Bad Debts Account, credit balance," denotes some Bad Debts Recovered, or whether it stands for the Bad Debts Reserve.

Objections have been raised against both ways. As regards the first way, it means that Profit and Loss Account must be opened before the Trial Balance is completed; otherwise, the student working a continuous exercise (i.e. one not in two separate parts) must omit the entry for the Bad Debts Reserve until he makes the Profit and Loss Account. With respect to the second way, it is urged that the amount is not an *actual* bad debt, but only a *possible* bad debt, thereby showing a fictitious amount for Bad Debts, and, as a result, rendering all comparisons of amounts for different years inaccurate and misleading.

Methods of Dealing with the Reserve and the Bad Debts Account. With respect to this, two methods obtain—

1. The Bad Debts are transferred direct to the Profit and Loss Account, thus ignoring the Reserve created specially to meet them. The two Reserves are then adjusted by themselves. If the old Reserve is not large enough, the extra amount required is debited to Profit and Loss Account, and credited (or added on) to the Reserve. If the old Reserve is too large, the amount beyond what is required is debited to (or subtracted from) the Reserve, and credited back to Profit and Loss Account.

2. The Bad Debts are transferred to the Reserve made specially for them, so far as it is sufficient to meet them. Any balance beyond the amount of the Reserve must be debited to Profit and Loss Account, in addition to the amount of the new Reserve. Should, however, the Reserve be greater than the amount of the Bad Debts, then the surplus will be carried forward to the new Reserve, and thus reduce the amount debited to Profit and Loss Account in order to make the fresh Reserve.

Example I. The Bad Debts Reserve at 1st Jan. was £120 10s. 6d. The Bad Debts during the year amounted to £105 11s. 9d. The Debtors at 31st Dec. are £2,706 14s. 2d. Make a new Reserve of 5 per cent. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries.

First Method

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Dec. 31	Profit and Loss . . .	105	11	9			
	To Bad Debts . . .				105	11	9
	Transfer of balance.						
„ 31	Profit and Loss . . .	14	16	2			
	To Bad Debts Reserve .				14	16	2
	Additional amount required to raise Reserve from £120 10s. 6d. to £135 6s. 8d. (5% on £2,706 14s. 2d.).						

LEDGER

Dr. BAD DEBTS *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Sundry Drs. .	105	11	9	19— Dec. 31	By Profit and Loss A/c . . .	105	11	9

Dr. BAD DEBTS RESERVE Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Amount c/d	135	6	8	19— Jan. 1	By Balance	120	10	6
					Dec. 31	„ Profit and Loss	14	16	2
		£135	6	8			£135	6	8
					19— Jan. 1	By Balance b/d	135	6	8

Dr. PROFIT AND LOSS ACCOUNT

	£	s.	d.	£	s.	d.
To Bad Debts				105	11	9
„ Bad Debts Reserve 5% £2,706 14s. 2d.	135	6	8			
Less Old Reserve	120	10	6			
				14	16	2

BALANCE SHEET

Assets	£	s.	d.	£	s.	d.
Sundry Debtors	2,706	14	2			
Less Bad Debts Reserve	135	6	8			
				2,571	7	6

Alternative Method

JOURNAL Dr. Cr.

		£	s.	d.	£	s.	d.
19.. Dec. 31	Bad Debts Reserve	105	11	9			
	To Bad Debts				105	11	9
	Transfer of balance.						
„ 31	Bad Debts	120	7	11			
	To Bad Debts Reserve				120	7	11
	Additional amount required to raise balance of Reserve from £14 18s. 9d. to £135 6s. 8d. (5% on £2,706 14s. 2d.)						
„ 31	Profit and Loss	120	7	11			
	To Bad Debts				120	7	11
	Transfer of balance.						

LEDGER

Dr. BAD DEBTS Cr.

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Sundry Drs.	105	11	9	19— Dec. 31	By Bad Debts Reserve	105	11	9
Dec. 31	„ Bad Debts Reserve	120	7	11	„ 31	„ Profit and Loss	120	7	11
		£225	19	8			£225	19	8

Dr. BAD DEBTS RESERVE Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Bad Debts . .	105	11	9	19— Jan. 1	By Balance . .	120	10	6
" 31	" Balance c/d .	135	6	8	Dec. 31	" Bad Debts . .	120	7	11
		£240	18	5			£240	18	5
					19— Jan. 1	By Balance b/d .	135	6	8

Dr. PROFIT AND LOSS ACCOUNT

	£	s.	d.	£	s.	d.
To Bad Debts				120	7	11

BALANCE SHEET

	£	s.	d.	£	s.	d.
Assets						
Sundry Debtors	2,706	14	2			
Less Bad Debts Reserve . . .	135	6	8			
				2,571	7	6

Example 2. On 1st Jan. the Bad Debts Reserve was £86 10s. 11d. The Bad Debts during the year amounted to £115 3s. 8d. The Debtors at 31st Dec. are £2,846 15s. 5d., and a new Reserve of 5 per cent thereof is required. Make the necessary Journal and Ledger entries, and show the Profit and Loss Account and Balance Sheet.

First Method

JOURNAL Dr. Cr.

		£	s.	d.	£	s.	d.
19.. Dec. 31	Profit and Loss . . .	115	3	8			
	To Bad Debts . . .				115	3	8
	Transfer of balance.						
" 31	Profit and Loss . . .	55	15	10			
	To Bad Debts Reserve .				55	15	10
	Additional amount required to raise Reserve from £86 10s. 11d. to £142 6s. 9d. (5% on £2,846 15s. 5d.).						

LEDGER

Dr. BAD DEBTS Cr.

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Sundry Drs. .	115	3	8	19— Dec. 31	By Profit and Loss A/c . .	115	3	8

Dr. BAD DEBTS RESERVE Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Balance c/d	142	6	9	19— Jan. 1	By Balance	86	10	11
					Dec. 31	„ Profit and Loss A/c	55	15	10
		£142	6	9			£142	6	9
					19— Jan. 1	By Balance b/d	142	6	9

Dr. PROFIT AND LOSS ACCOUNT

	£	s.	d.	£	s.	d.
To Bad Debts				115	3	8
„ Bad Debts Reserve 5% £2,846 15s. 5d.	142	6	9			
Less Old Reserve	86	10	11			
				55	15	10

BALANCE SHEET

Assets	£	s.	d.	£	s.	d.
Sundry Debtors	2,846	15	5			
Less Bad Debts Reserve	142	6	9			
				2,704	8	8

Alternative Method

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Dec. 31	Bad Debts Reserve	86	10	11			
	To Bad Debts				86	10	11
	Transfer of balance.						
„ 31	Bad Debts	142	6	9			
	To Bad Debts Reserve				142	6	9
	Amount required for new Reserve (5% on £2,846 15s. 5d.)						
„ 31	Profit and Loss	170	19	6			
	To Bad Debts				170	19	6
	Transfer of balance.						

LEDGER

Dr. BAD DEBTS Cr.

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Sundry Drs.	115	3	8	19— Dec. 31	By Bad Debts Reserve	86	10	11
Dec. 31	„ Bad Debts Reserve	142	6	9	„ 31	„ Profit and Loss A/c	170	19	6
		£257	10	5			£257	10	5

Dr. BAD DEBTS RESERVE Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Bad Debts . .	86	10	11	19— Jan. 1	By Balance . .	86	10	11
„ 31	„ Balance c/d .	142	6	9	Dec. 31	„ Bad Debts . .	142	6	9
		£228	17	8			£228	17	8
					19— Jan. 1	By Balance b/d .	142	6	9

Dr. PROFIT AND LOSS ACCOUNT

	£	s.	d.	£	s.	d.
To Bad Debts				170	19	6

BALANCE SHEET

	£	s.	d.	£	s.	d.
Assets						
Sundry Debtors	2,846	15	5			
Less Bad Debts Reserve . . .	142	6	9			
				2,704	8	8

Example 3. On 1st Jan. the Bad Debts Reserve was £206 12s. 9d. The Bad Debts during the year amounted to £55 5s. 8d. The Debtors at 31st Dec. are £2,427 16s. 7d., and a new Reserve of 5 per cent is required. Make the necessary Journal and Ledger entries, and show also the Profit and Loss Account and Balance Sheet.

First Method

JOURNAL Dr. Cr.

		£	s.	d.	£	s.	d.
19.. Dec. 31	Profit and Loss A/c . .	55	5	8			
	To Bad Debts . . .				55	5	8
	Transfer of balance.						
„ 31	Bad Debts Reserve . .	85	4	11			
	To Profit and Loss A/c .				85	4	11
	Amount credited back to Profit and Loss A/c in order to reduce Reserve from £206 12s. 9d. to £121 7s. 10d. (5% on £2,427 16s. 7d.						

LEDGER

Dr. BAD DEBTS Cr.

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Sundry Drs. .	55	5	8	19— Dec. 31	By Profit and Loss .	55	5	8

Dr. BAD DEBTS RESERVE Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Profit and Loss A/c . . .	85	4	11	19— Jan. 1	By Balance . . .	206	12	9
„ 31	„ Balance c/d .	121	7	10					
		£206	12	9			£206	12	9
					19— Jan. 1	By Balance b/d .	121	7	10

Dr. PROFIT AND LOSS ACCOUNT Cr.

	£	s.	d.					£	s.	d.
To Bad Debts . . .	55	5	8	By Bad Debts Reserve—						
				Old Reserve	£206	12	9			
				Less New „	121	7	10	85	4	11

BALANCE SHEET

	£	s.	d.	£	s.	d.
Assets						
Sundry Debtors	2,427	16	7			
Less Bad Debts Reserve . . .	121	7	10			
				2,306	8	9

Alternative Method

JOURNAL Dr. Cr.

		£	s.	d.	£	s.	d.
19.. Dec. 31	Bad Debts Reserve . .	55	5	8			
	To Bad Debts . . .				55	5	8
	Transfer of balance.						
„ 31	Bad Debts Reserve . .	29	19	3			
	To Profit and Loss . .				29	19	3
	Amount credited back to Profit and Loss A/c to reduce Reserve from £151 7s. 1d. to £121 7s. 10d. (5% on £2,427 16s. 7d.)						

LEDGER

Dr. BAD DEBTS Cr.

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Sundry Drs. .	55	5	8	19— Dec. 31	By Bad Debts Reserve . .	55	5	8

Dr. BAD DEBTS RESERVE Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Bad Debts . .	55	5	8	19— Jan. 1	By Balance . .	206	12	9
„ 31	„ Profit and Loss A/c . .	29	19	3					
„ 31	„ Balance c/d .	121	7	10					
		£206	12	9			£206	12	9
					19— Jan. 1	By Balance b/d .	121	7	10

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
				By Bad Debts Reserve .	29	19	3

BALANCE SHEET

	£	s.	d.	£	s.	d.
Assets						
Sundry Debtors	2,427	16	7			
Less Bad Debts Reserve . . .	121	7	10			
				2,306	8	9

Other Methods. Commercial practice in some parts of the country favours the method of bringing down the Reserve in the Bad Debts Account itself, the argument being that it is preferable to show the total amount of Bad Debts (including Reserve) for the Profit and Loss Account in *one* sum, as this facilitates comparison of one year with another. The following workings of the examples given will exemplify this practice—

Example 1—

Dr. BAD DEBTS *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Sundry Debtors .	105	11	9	19— Jan. 1	By Balance b/f .	120	10	6
Dec. 31	„ Reserve—5% £2,706 14s. 2d. c/d	135	6	8	Dec. 31	„ Profit and Loss .	120	7	11
		£240	18	5			£240	18	5
					19— Jan. 1	By Balance b/d .	135	6	8

Example 2—

Dr. BAD DEBTS *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Sundry Debtors .	115	3	8	19— Jan. 1	By Balance b/f .	86	10	11
Dec. 31	„ Reserve—5% £2,846 15s. 5d. c/d	142	6	9	Dec. 31	„ Profit and Loss .	170	19	6
		£257	10	5			£257	10	5
					19— Jan. 1	By Balance b/d .	142	6	9

Example 3—

Dr. BAD DEBTS *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Sundry Debtors .	55	5	8	19— Jan. 1	By Balance b/f .	206	12	9
Dec. 31	„ Reserve—5% £2,427 16s. 7d. c/d	121	7	10					
„ 31	„ Profit and Loss .	29	19	3					
		£206	12	9			£206	12	9
					19— Jan 1	By Balance b/d .	121	7	10

RESERVES FOR DISCOUNT

Reserve for Discount on Debtors. This is a charge made against profits, in order to provide for an expected loss in the shape of discounts that will have to be allowed to the firm's debtors on payment of their accounts.

Reserve for Discount on Creditors. This is an addition to the profits, to provide for those discounts expected to be received on payment of the firm's creditors.

Object of Making Discount Reserves. The object of making reserves for discount is that the Debtors and Creditors shall appear on the Balance Sheet at their true value; otherwise, we should be *overstating* both our assets and liabilities. For this reason, therefore, such Reserves are usually shown on the Balance Sheet as deductions from the Debtors and Creditors respectively.

Arguments For and Against Discount Reserves. Some accountants urge that discounts expected to be allowed, and received, should not be taken into account at all; that these discounts should, properly speaking, appear only in the same period as the Cash receipts or payments to which they belong. One argument *for* them has already been mentioned, namely, the otherwise overstating of the Debtors and Creditors. Another argument urged in their favour is, that the Debtors are the result of sales, and that on each sale a certain amount of profit has been taken credit for, even though the debt has not actually been paid, and that the discount to be allowed to the debtor on payment of the account is really a reduction of that profit to a smaller amount, and should, therefore, fall in the same period as the one in which the profit has been shown; so that only the exact amount of profit on each sale shall be taken credit for. And if it be right thus to anticipate the profit on the sale (for the profit is not really made unless and until the debt is actually paid), it surely cannot be wrong to anticipate any loss that will be made in the realizing of such profit.

Methods of Making the Reserves. The Reserves are made by means of a Journal entry direct to Profit and Loss Account. Another method is to debit or credit them to the Discount Account. The objection to the latter method is that these amounts are not *actual* discounts but only Reserves.

How the Amounts of the Reserves are Arrived At. The Discount Reserves may be the amounts of specially compiled lists of discounts allowable and receivable, but, generally speaking, they are calculated by means of a fixed percentage on the amount of the outstanding Debtors and Creditors. Any new Reserves that are made must, of course, be adjusted each year with the old ones, as we do not require double Reserves. The method of treatment is similar to that adopted with Reserves for Bad Debts.

Note on Reserve for Discount on Debtors. The Reserve for Discount on Debtors should, properly speaking, be calculated on the *good* Debtors, that is, on the amount of the Debtors *less* the new Bad Debts Reserve (if any). A debt cannot be both good and bad. If we reserve for it being bad, we shall not require discount on it. On the other hand, should the debt turn out good, then the amount we have reserved for it as a bad debt will be much greater than the discount allowed on it. To make *ample* provision for losses is all that is required; there is no object in making *excessive* provision.

Example 1. The Sundry Debtors at 31st Dec. are £4,726 15s. 9d. A Bad Debts Reserve of 5 per cent is made, and also a Discount Reserve of 5 per cent. The Discounts Allowed during the year amounted to £167 2s. 11d. The Discount Reserve on 1st Jan. was £200 13s. 6d. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries relating to Discount.

First Method

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Dec. 31	Profit and Loss A/c . .	167	2	11			
	To Discounts Allowed .				167	2	11
	Transfer of balance.						
„ 31	Profit and Loss A/c . .	23	16	11			
	To Reserve for Discount on Drs.				23	16	11
	Amount required to raise old Reserve from £200 13s. 6d. to £224 10s. 5d. (5% on £4,490 9s. 0d., viz. £4,726 15s. 9d., less Reserve for Bad Debts, £236 6s. 9d.)						

LEDGER

Dr. DISCOUNTS ALLOWED Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Sundries . .	167	2	11	19— Dec. 31	By Profit and Loss .	167	2	11

Dr. RESERVE FOR DISCOUNT ON DEBTORS Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Balance c/d .	224	10	5	19— Jan. 1	By Balance . .	200	13	6
					Dec. 31	„ Profit and Loss A/c . .	23	16	11
		£224	10	5			£224	10	5
					19— Jan. 1	By Balance b/d .	224	10	5

Dr. PROFIT AND LOSS ACCOUNT

	£	s.	d.	£	s.	d.
To Discounts Allowed . . .				167	2	11
„ Reserve for Discount on Debtors .	224	10	5			
Less Old Reserve . . .	200	13	6	23	16	11

BALANCE SHEET

Assets	£	s.	d.	£	s.	d.
Sundry Debtors	4,726	15	9			
Less Bad Debts Reserve . . .	236	6	9			
	4,490	9	–			
Less Discount Reserve . . .	224	10	5	4,265	18	7

Alternative Method

JOURNAL *Dr.* *Cr.*

19..		£	s.	d.	£	s.	d.
Dec. 31	Reserve for Discount on Drs. . To Discounts Allowed . Transfer of balance.	167	2	11	167	2	11
„ 31	Discounts Allowed . . To Reserve for Discount on Drs. . . . . . Additional amount required to raise Old Reserve from £33 10s. 7d. to £224 10s. 5d. (as above).	190	19	10	190	19	10
„ 31	Profit and Loss A/c . . To Discounts Allowed . Transfer of balance.	190	19	10	190	19	10

LEDGER

Dr. DISCOUNTS ALLOWED *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. to Dec.	To Sundries . .	167	2	11	Dec. 31	By Discount Reserve . .	167	2	11
Dec. 31	„ Discount Reserve . .	190	19	10	„ 31	„ Profit and Loss . .	190	19	10
		£358	2	9			£358	2	9

Dr. RESERVE FOR DISCOUNT ON DEBTORS *Cr.*

		£	s.	d.			£	s.	d.
19— Dec. 31	To Discounts allowed .	167	2	11	19— Jan. 1	By Balance .	200	18	6
„ 31	„ Balance c/d .	224	10	5	Dec. 31	„ Discounts allowed .	190	19	10
		£391	13	4			£391	13	4
					19— Jan. 1	By Balance b/d .	224	10	5

Dr. PROFIT AND LOSS ACCOUNT

				£	s.	d.
To Discounts Allowed . . .				190	19	10

BALANCE SHEET

Assets	£	s.	d.	£	s.	d.
Sundry Debtors	4,726	15	9			
Less Bad Debts Reserve . . .	236	6	9			
	4,490	9	–			
Less Discount Reserve . . .	224	10	5			
				4,265	18	7

Example 2. On 1st Jan. the Reserve for Discount on Creditors was £120 6s. 8d. The Discounts Received during the year amounted to £104 11s. 4d. The Creditors at 31st Dec. are £4,983 14s. 7d., and a new Reserve of 2½ per cent is required. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries relating to Discount.

First Method

JOURNAL *Dr.* *Cr.*

		£	s.	d.	£	s.	d.
19.. Dec. 31	Discounts Received . .	104	11	4			
	To Profit and Loss A/c .				104	11	4
	Transfer of balance.						
„ 31	Reserve for Discount on Crs. .	4	5	2			
	To Profit and Loss A/c .				4	5	2
	Additional amount required to raise Reserve from £120 6s. 8d. to £124 11s. 10d. (2½% on £4,983 14s. 7d.)						

LEDGER

Dr. DISCOUNTS RECEIVED *Cr.*

		£	s.	d.			£	s.	d.
19— Dec. 31	To Profit and Loss Account .	104	11	4	19— Jan. to Dec.	By Sundries . .	104	11	4

Dr. RESERVE FOR DISCOUNT ON CREDITORS Cr.

		£	s.	d.			£	s.	d.
19— Jan. 1	To Balance	120	6	8	19— Dec. 31	By Balance c/d	124	11	10
Dec. 31	„ Profit and Loss	4	5	2					
		£124	11	10			£124	11	10
19— Jan. 1	To Balance b/d	124	11	10					

PROFIT AND LOSS ACCOUNT

Cr.

	£	s.	d.	£	s.	d.
By Discounts Received				104	11	4
„ Reserve for Discount on Crs.	124	11	10			
Less Old Reserve	120	6	8			
				4	5	2

BALANCE SHEET

	£	s.	d.	£	s.	d.
Liabilities						
Sundry Creditors	4,983	14	7			
Less Discount Reserve	124	11	10			
				4,859	2	9

Alternative Method

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Dec. 31	Discount Received.	104	11	4			
	To Reserve for Discount on Crs.				104	11	4
	Transfer of balance.						
„ 31	Reserve for Discount on Crs.	108	16	6			
	To Discounts Received				108	16	6
	Additional amount required to raise Reserve from £15 15s. 4d. to £124 11s. 10d. (as above)						
„ 31	Discounts Received	108	16	6			
	To Profit and Loss A/c				108	16	6
	Transfer of balance.						

LEDGER

Dr. DISCOUNTS RECEIVED Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Discount Reserve	104	11	4	19— Jan. to Dec.	By Sundries	104	11	4
„ 31	„ Profit and Loss	108	16	6	Dec. 31	„ Discount Reserve	108	16	6
		£213	7	10			£213	7	10

Dr. RESERVE FOR DISCOUNT ON CREDITORS *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Jan. 1	To Balance	120	6	8	Dec. 31	By Discounts Received	104	11	4
Dec. 31	„ Discounts Received	108	16	6	„ 31	„ Balance c/d	124	11	10
		£229	3	2			£229	3	2
19—									
Jan. 1	To Balance b/d	124	11	10					

PROFIT AND LOSS ACCOUNT *Cr.*

	£	s.	d.	£	s.	d.
By Discounts Received				108	16	6

BALANCE SHEET

	£	s.	d.	£	s.	d.
Liabilities						
Sundry Creditors	4,983	14	7			
Less Discount Reserve	124	11	10			
				4,859	2	9

Supposing we had placed the Reserves in both examples in the Discount Account instead of in separate Reserve Accounts, as is sometimes done, the Discount Account would appear as under—

Dr. DISCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Jan. 1	To Balance	120	6	8	Jan. 1	By Balance	200	13	6
Dec. 31	„ Sundries	167	2	11	Dec. 31	„ Sundries	104	11	4
„ 31	„ Reserve on Drs. c/d	224	10	5	„ 31	„ Reserve on Crs. c/d	124	11	10
					„ 31	„ Profit and Loss Account	82	3	4
		£512	-	-			£512	-	-
19—					19—				
Jan. 1	To Balance b/d	124	11	10	Jan. 1	By Balance b/d	224	10	5

This method, although shown for the purpose of information, is not recommended to the student, as it is rather complicated; and it is also very confusing to have *two* balances in *one* account. From the commercial point, also, it is better to be able to see at a glance the amount of the discount allowed and of that received.

Other Methods. As with the Bad Debts Reserve so also with the Discount Reserve, some accountants favour the method of bringing down the Reserve in the Discount Account itself. The advantage claimed for it is that the total amount of Discount (including Reserve) for the Profit and Loss Account is shown in *one* sum, and this facilitates comparison of one year with another.

The following workings of the examples given will exemplify this practice—

Example 1—

Dr. DISCOUNTS ALLOWED *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. to Dec.	To Sundries	167	2	11	19— Jan. 1	By Balance b/f	200	13	6
Dec. 31	" Reserve on Drs. 5%, £4,490 9s. c/d	224	10	5	Dec. 31	" Profit and Loss	190	19	10
		£391	13	4			£391	13	4
					19— Jan. 1	By Balance b/d	224	10	5

Example 2—

Dr. DISCOUNTS RECEIVED *Cr.*

		£	s.	d.			£	s.	d.
19— Jan. 1	To Balance	120	6	8	19— Jan. to Dec.	By Sundries	104	11	4
Dec. 31	" Profit and Loss	108	16	6	Dec. 31	" Reserve on Crs. 2½%, £4,983 14s. 7d. c/d	124	11	10
		£229	3	2			£229	3	2
19— Jan. 1	To Balance b/d	124	11	10					

QUESTIONS ON CHAPTER VII

1. Define " Bad Debts Reserve."
2. How is the amount of the Bad Debts Reserve arrived at? What objection is there to taking a percentage of the sales?
3. What is the object of making a Bad Debts Reserve?
4. Explain briefly the two methods of creating a Bad Debts Reserve, and also the objections raised against them.
5. Explain briefly the different methods of treating the Bad Debts Reserve and Bad Debts respectively.
6. Define the following: " Reserve for Discount on Debtors," " Reserve for Discount on Creditors."
7. What is the object of making Discount Reserves?
8. State briefly some of the arguments *for* and *against* making Reserves for Discount.
9. What different methods are there of making the Discount Reserves?
10. How is the amount of the Discount Reserve ascertained?
11. Should a Discount Reserve be calculated on the full amount of the Debtors or not? Give reasons for your answer.

EXERCISE VII

1. The Bad Debts Reserve on 1st January was £725 15s. 6d. The Bad debts during the year amounted to £630 10s. 6d. The Sundry Debtors on 31st December are £16,368 16s. 3d., and a new Reserve of 5 per cent is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries.

2. The Bad Debts Reserve on 1st January was £575 13s. 9d. The Bad debts during the year amounted to £727 14s. 2d. The Sundry Debtors at 31st December are £13,626 15s. 8d., and a new Reserve of 5 per cent is required. Make the necessary Journal entries (both ways), and show also the Ledger, Profit and Loss Account, and Balance Sheet.

3. The Sundry Debtors at 31st December are £10,972 17s. 4d. There was no old Bad Debts Reserve, but as the Bad Debts during the year amounted to £327 16s. 9d., it was decided to create a Reserve of 5 per cent for future bad debts. Make the necessary entries (both ways) in the Journal, Ledger, and Profit and Loss Account, and show also the Balance Sheet.

4. The Bad Debts Reserve on 1st January was £268 16s. 7d. The Bad Debts during the year amounted to £62 15s. 10d. The Sundry Debtors at 31st December are £3,826 13s. 6d., and a new Reserve of 5 per cent is required. Make (both ways) the necessary Journal entries, and show the Ledger Accounts the Profit and Loss Account, and Balance Sheet.

5. The Bad Debts Reserve on 1st January was £56 10s. 6d. The Sundry Debtors at 31st December are £1,026 8s. 10d. There were no Bad Debts during the year, and so it is decided to abolish the Reserve. Make the necessary entries (both ways) in the Journal, and show the Ledger, Profit and Loss Account, and Balance Sheet.

6. The Bad Debts Reserve on 1st January was £147 13s. 8d. The Bad Debts during the year amounted to £27 10s. 4d. The Sundry Debtors at 31st December are £2,806 15s. 5d., and it is decided to make no further increase in the Reserve. Show the Journal entries (both ways) and the Ledger, Profit and Loss Account, and Balance Sheet.

7. The Sundry Debtors on 31st December are £4,361 10s. 11d. A Bad Debts Reserve of 5 per cent is made, and a Discount Reserve of 5 per cent is required. The Discounts Allowed during the year amounted to £163 17s. 8d., and there was an Old Discount Reserve of £175 15s. 6d. Make (both ways) the necessary entries relating to discount in the Journal, Ledger, Profit and Loss Account, and show the Balance Sheet.

8. The Sundry Debtors on 31st December are £3,897 15s. 4d. A Bad Debts Reserve of 5 per cent is made, and a Discount Reserve of 5 per cent is required. The Discounts Allowed during the year amounted to £126 13s. 3d., and there was an old Discount Reserve of £106 16s. 2d. Show the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

9. The Sundry Debtors at 31st December are £2,965 2s. 10d. A Bad Debts Reserve of 5 per cent is made, and a Discount Reserve of 5 per cent is required. The Discounts Allowed during the year amounted to £56 9s. 9d., and there was an old Discount Reserve of £250 14s. 4d. Show the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

10. On 1st January the Reserve for Discount on Creditors was £120 10s. 6d. The Discounts Received during the year amounted to £110 16s. 6d. The Creditors on 31st December are £4,947 17s. 5d., and a new Reserve of 2½ per cent is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

11. On 1st January the Reserve for Discount on Creditors was £160 13s. 6d. The Discounts Received during the year amounted to £187 16s. 5d. The Creditors at 31st December are £6,626 10s. 11d., and a new Reserve of 2½ per cent is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

12. On 1st January, the Reserve for Discount on Creditors was £157 9s. 9d. The Discounts Received during the year amounted to £57 12s. 2d. The Creditors at 31st December are £5,340 18s. 10d., and a new Reserve of 2½ per cent is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

13. Show the necessary Ledger entries to describe the following—

(*a*) Jan. 1. Bad Debts Reserve of £860 standing on the books.
(*b*) Dec. 31. Total of Bad Debts Account, £1,000.
(*c*) „ 31. Adjust the Reserve Account so that it may show a Reserve of 7½ per cent on the Book Debts, which are £15,000.

(*d*) Assuming that business has been continued for another twelve months, i.e. up to 31st December, the Bad Debts are then £1,100. Adjust the Reserve, so that it may show a reserve of 7½ per cent on the amount of the Book Debts, which are then found to be £12,674. (*National Union of Teachers.*)

REVISION EXERCISE VII

1. Explain the object of a Journal, and give a list of the books in daily use in the Counting House of a City Warehouseman. (*London Chamber of Commerce.*)

2. Enter the following transaction in the subsidiary books you would suppose to be in use in a well-appointed City House—

1st July, Sold to Alfred Bunn, of Beverley, a Bale of Stuff Goods containing 20 pieces, each of 25 yards, at ninepence per yard; Discount 6 per cent Cash at one month prompt—and assume such to have been paid in due course. (*London Chamber of Commerce.*)

3. What is a Balance Sheet? Explain the difference between that and an ordinary Statement of Affairs. (*London Chamber of Commerce.*)

4. Prepare a form of Cash Book and Petty Cash book, and of Purchases and Sales Books, having special regard to strict record, whilst securing economy in clerical labour; and give a series of specimen entries in the two former. (*London Chamber of Commerce.*)

5. Post the following items to their respective Accounts, and draw up a Capital Account, Profit and Loss Account, and Balance Sheet as at 31st December.

A Merchant's Books showed his position on 1st January to be as follows—

		£	s.	d.
Cash at Bankers		1,756	14	10
Bills Receivable in hand		3,250	–	–
Wool and other Produce in hand	£45,200			
Less Advances received thereon	39,000			
		6,200	–	–
Bills Payable falling due in the following year		7,500	–	–
Consignments to Australia		10,000	–	–
Bank of Australia, Amount due for Advances against Consignments		8,000	–	–
Sundry Creditors, Amount due to them		3,500	–	–

During the year following the Merchant had the following transactions—

	£	s.	d.
Goods Purchased for Export	24,000	–	–
Freight Paid thereon	2,760	–	–
Insurance Paid	250	–	–
Proceeds of Sale of Goods Exported as per Account Sales rendered by Agents	22,500	–	–

	£	s.	d.
Exported Goods remaining in hands of Agents at close of year	5,700	–	–
Bills Receivable received from Agents in respect of Exported Goods Sold	21,000	–	–
Bills Payable accepted against Goods Purchased for Export	20,000	–	–
Cash Paid for Goods Purchased for Export	1,500	–	–
Bills Payable Paid at Maturity	24,000	–	–
Bills Receivable Paid at Maturity during the year, and placed by Bankers to Credit of Banking Account	7,500	–	–
Bills Receivable discounted during the year, £15,000 and proceeds, *less* £450 Discount paid into Banking Account.	14,550	–	–
Wool and other Produce Sold during the year, and Proceeds in Cash Paid into Banking Account	50,000	–	–
Advances on ditto Repaid	39,000	–	–
Interest Paid on such Advances	950	–	–
Consignments to Australia realized, and net proceeds Received by Merchant in Cash, and Paid into Banking Account	9,350	–	–
Advances against Consignments repaid to Bank of Australia with Interest thereon	8,400	–	–
Office Expenses, Salaries, and Rent paid	2,350	–	–
Private Drawings of Merchant	1,500	–	–

(*Institute of Bankers.*)

6. On 1st March, P. Pensley and R. Rubble draw on one another at three months for £250 for their mutual accommodation. They discount each other's bills at 4½ per cent, and, at maturity, each meets his own acceptance. Record the above transaction in the Ledgers of both parties.

7. The books of Messrs. William Jones & Co. were balanced as on 31st December, and a Profit and Loss Account and Balance Sheet prepared. The profit for the year, as shown by these accounts, amounted to £2,481 6s. 4d. The following mistakes had been made by the book-keeper during the year—

(*a*) A gas engine costing £450 had been debited to " Purchases Account " instead of to " Machinery and Plant Account."

(*b*) An amount of £15 12s. 8d., received as a final dividend in the estate of G. Smith, the balance of whose account had, in a previous year, been written off as a bad debt, was standing to the credit of a newly-opened account under the same name, and was included amongst the " Sundry Creditors " in the Balance Sheet.

(*c*) A cheque amounting to £10 4s. 8d., which had been returned dishonoured, was posted to the debit of " Allowances Account " instead of to the account of B. Brown, from whom it was received.

(*d*) Goods amounting to £52 1s. 4d. had been returned by R. Robinson, on 30th December, and were taken into stock, but the entries recording the return were not passed through the firm's books until 4th January of next year.

What adjustments would be necessary to rectify these errors, and how would they affect the above-mentioned profit? (*London Chamber of Commerce.*)

8. Wilkinson & Co., publishers, publish a book, of which 3,000 copies are printed. They pay all expenses, and give the writer a royalty of 1s. on every copy *sold*. The cost of the book, which was paid by Wilkinson & Co., and charged in their books to the accounts named, was as follows—

Printing	£100
Paper	70
Binding	100
Advertising	30

At the end of the first year it was found that 100 copies had been given away, and 2,000 sold at a net price of 5s. each, and Wilkinson & Co. sent the author a detailed statement of accounts for the year, with cheque for the royalty due to him. Make the Journal entries that Wilkinson & Co. would make on drawing up this account, and show (1) What profit (*a*) the author, and (*b*) the publishers have made on the first year's sales; (2) What profit they would respectively make on the next year, assuming that the copies remaining in stock were all sold at the same price, and no further charges incurred. (*Civil Service.*)

9. The following balances were, on 31st December, extracted from the books of H. Francis, who carried on business as a manufacturing stationer—

	£	s.	d.		£	s.	d.
H. Francis, Capital Account	10,000	–	–	Loan from E. A. Francis	1,000	–	–
Furniture and Fittings	342	1	7	Office Salaries	427	12	–
Land and Buildings	2,171	13	1	Purchases	13,271	14	8
Drawings	420	–	–	„ Returns	97	7	7
Cash at Bank	242	16	5	Stock (1st Jan.)	4,017	2	1
„ in hand	14	11	2	Plant and Machinery	1,442	12	1
Sales	18,767	1	1	Reserve for Bad and Doubtful Debts	310	7	6
„ Returns	124	14	11	Sundry Creditors	1,242	14	11
Carriage	345	1	7	Manufacturing Charges	271	12	1
General Expenses	241	2	2	Rates and Taxes	242	–	1
Manufacturing Wages	3,124	17	2	Sundry Debtors	4,382	14	11
Discounts allowed	263	12	–	Bad Debts	92	12	2
„ received	199	7	9	Insurance	47	6	3
Bank Charges, etc.	7	8	8	Bills Receivable	123	13	9

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and Balance Sheet as on that date, after taking into consideration the following—

(1) 10 per cent depreciation is to be written off Plant and Machinery.

(2) A new machine had been installed in November, at a cost of £250, but was not paid for; and no entries had been put through the books.

(3) 10 per cent depreciation is to be written off Furniture and Fittings.

(4) Instructions were given to charge out the Stationery taken out of Stock during the year, for use in the business, at £47 8s. 2d., but this had not been recorded in the books.

(5) The Reserve for Bad and Doubtful Debts is to be made up to £500.

(6) The unexpired insurances amounted, on 31st December, to £12 4s. 2d.

(7) £12 was due on 31st December for interest on the loan from E. A. Francis, and had not been put through the books.

The Stock on 31st December was valued at £4,247 6s. 6d.; and on that date, Bills Receivable, not yet due, to the amount of £117 had been discounted. (*London Chamber of Commerce.*)

CHAPTER VIII

CAPITAL AND REVENUE, RECEIPTS AND PAYMENTS ACCOUNT, INCOME AND EXPENDITURE ACCOUNT, VOYAGE ACCOUNT

Importance of Distinction between Capital and Revenue. The proper distinction between Capital and Revenue, as regards both receipts and expenditure, is one of the *fundamental* principles of correct accounting. It is very essential in all cases that this distinction should be rigidly observed, and amounts rightly allocated between Capital and Revenue. Failure or neglect to discriminate between the two will falsify the whole of the results of the book-keeping. For instance, Plant may be purchased, and charged to the Purchases Account; additions may be made to the premises, and debited to Repairs Account; some of the fixed assets may be sold, and the proceeds treated as a profit. In each case, both the Profit and Loss Account and Balance Sheet would be inaccurate and misleading. These and similar mistakes are very easily made, and if undetected would soon render the book-keeping useless as a record of financial results.

The same difficulty presents itself to students every time they are given a Trial Balance and requested to prepare therefrom a Trading and Profit and Loss Account and Balance Sheet. They must be able to discriminate between Capital items and Revenue items; that is, they must know which items go in the Profit and Loss Account, and which on the Balance Sheet.

Capital Expenditure comprises all expenditure incurred in acquiring assets for the purpose of earning income, or increasing the earning capacity of the business; for example, Land and Buildings or additions thereto, Patent or Mining Rights, Plant and Machinery or additions thereto.

Revenue Expenditure consists of expenditure incurred in Replacements, Repairs, Renewals, Depreciation of the fixed assets, and also the current expenses of carrying on the business, such as Rent, Rates and Taxes, Wages and Salaries, Carriage, Insurance, and other trade charges.

In the following examples a distinction has been drawn between Capital and Revenue items in order further to illustrate the subject—

Installation of Electric Light and Telephone	Capital
Annual Charges for maintenance of same	Revenue
Purchase of New Plant	Capital
Annual Repairs to same	Revenue
Annual Depreciations of same	,,
Purchase of Leasehold Premises	Capital

Annual Ground Rent of same	Revenue
Annual Amount written off same	,,
Annual Repairs to same	,,
Purchase of Patent Rights	Capital
Annual Renewal Fees for same	Revenue
Purchase of New Carts	Capital
New Wheels to Carts	Revenue
Sale of old Plant (depreciated value in books, £135) for £70, and purchase of New Plant £320 in place of it—	
Loss on Sale of Old Plant, £65	Revenue
Cost of New Plant, £320	Capital

The above are only general rules, as it is quite impossible to draw a hard and fast line. Circumstances sometimes arise which make the question a very complicated one. Repairs are usually a revenue charge; but if we purchase second-hand plant, and pay for some immediate repairs necessary to make it efficient for our purpose, then such repairs become Capital expenditure, and must be added to the plant as part of its cost. Wages are a revenue item; but the wages paid to workmen to erect and fit some new machinery the firm has bought must be considered as an addition to the cost of the machinery. Legal expenses are a revenue charge; but the legal expenses for conveyancing when purchasing a works must be treated as part of the cost of the works. Carriage is usually a revenue item; but carriage paid on any plant and machinery we buy must be added on as part of its cost. Interest on Capital during the construction of works or buildings or plant is frequently authorized to be capitalized, i.e. treated as part of the cost of same. Parliamentary Expenses incurred in the promotion of bills for the establishment of Railways, Gas Works, Electric Light Undertakings are also allowed to be capitalized.

Apportionment between Capital and Revenue. With some items of expenditure it may be necessary to make an apportionment, i.e. to charge so much to Capital, and to write off the balance. This is more particularly the case with alterations, improvements, and extensions of premises or plant. To capitalize the whole of the expenditure may not always be a prudent policy, as the value of the premises or plant may not be enhanced to anything like the amount of money spent thereon. Again, take the case of a tramway company which converts its system from horse traction to electric traction. A considerable loss is incurred in selling off the horses and old trams. Should this sum be capitalized, i.e. treated as part of the cost of the new equipment? Opinions differ. Some accountants say it should, some say it should not. Speaking generally, the safe policy to adopt seems to be *not* to capitalize *permanently* any expenditure which is not represented by assets, although legally, in the case in point, it may be done. Take the case of a manufacturer who suddenly finds it necessary to " scrap " his plant and machinery, and replace it with newer and better inventions. A

considerable loss is incurred on the sale of the obsolete plant. Is this part of the cost of the new equipment? Undoubtedly not. The proper way is to capitalize the amount *temporarily*, i.e. to write it off to Revenue over a period of years, three to five, as the case may be.

Receipts. Owing to the sources of receipts being comparatively few in number as compared with the expenses, there will not be the same difficulty. There is still, however, the risk of error. In some cases old assets are disposed of and the proceeds treated as a *profit*, whereas the difference between the book value and the proceeds of sale should be written off as a *loss*.

Capital Receipts comprise any additional capital paid in by partners, or, in the case of a joint-stock company, any sums received from shareholders or debenture holders, any loans, the proceeds of sale of any of the assets.

Revenue Receipts, or Income, are the profits arising from the sales, discounts received, commission earned, interest on any investment, transfer fees, etc.

REVENUE ACCOUNT, RECEIPTS AND PAYMENTS ACCOUNT, INCOME AND EXPENDITURE ACCOUNT

Revenue Account. This is another name for Profit and Loss Account, usually applied to large industrial concerns such as Railway and Shipping companies, Gas, Water, and Electric Light companies, etc.

Receipts and Payments Account. This is simply a summary of the Cash transactions, as per the Cash Book, analysed or classified under suitable headings.

Receipts and Expenditure on Capital Account. This is the statutory name for the Capital Account of companies which adopt the Double Account System of presenting their Balance Sheet. On one side are placed the Capital Receipts from shareholders, stockholders and debenture holders, and on the other side the various items of Capital Expenditure.

Income and Expenditure Account. This is merely another term for Profit and Loss Account. It is usually adopted by *non-trading* concerns such as clubs, societies, hospitals, and also by professional men and private individuals.

Note re Hospital Accounts. The accounts of hospitals take the form as prescribed by the committees of the " Funds " from which they receive grants of money. Failure to prepare and publish their accounts in the prescribed form would make it difficult for the institution to receive favourable consideration when applying for a grant.

The Income and Expenditure Account, as prescribed by the

committees of the Funds for grants to hospitals, shows " Income " on the debit side, and " Expenditure " on the credit side of the account respectively. The items are detailed in the account under appropriate sub-headings, and it is thought a pro formâ example of such an account will be helpful to students.

INCOME AND EXPENDITURE ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

Income	*Expenditure*
(1) Annual Subscriptions (as per list).	MAINTENANCE
(2) Donations (as per list).	(1) Provisions— (details)
(3) Collection Boxes.	(2) Surgery and Dispensary— (details)
(4) Grants from— Hospital Sunday Fund. King Edward VII's Fund.	(3) Domestic— (details) (4) Establishment Charges— (details)
(5) Invested Property— Interest on Deposits. Rents.	(5) Salaries and Wages— (details)
(6) Patients— Private ward patients. Out-patients.	(6) Miscellaneous— (details) (7) Administration— (details)
(7) Miscellaneous receipts.	TOTAL ORDINARY EXPENDITURE
Balance at Bank, 1st Jan., 19....... „ in hand, 1st Jan., 19.......	Balance at Bank, 31st Dec., 19.... .: „ in hand, 31st Dec., 19.......
	(8) Extraordinary Expenditure— (details)

Difference between an Income and Expenditure Account and a Receipts and Payments Account. The following points of difference should be carefully noted by the student. An Income and Expenditure Account deals with the *whole* of the income and expenditure for the year, whether actually received and paid, or not. All accruing income and all outstanding expenses that belong to the period covered by the account must be included before any balance is struck. A Receipts and Payments Account, on the other hand, deals with only *part* of the income and expenditure for the year, namely, that part actually received and actually paid. Again, an Income and Expenditure Account contains income and expenditure of the *current* year only. A Receipts and Payments Account may contain the balance of cash in hand at the commencement and at the close of the year, and it will also contain all cash received and paid during the year. It may comprise, not only income and

expenditure for the *current* year, but also for the *previous* year, and even for the *succeeding* year. Further, the balance (if any) of a Receipts and Payments Account denotes merely the cash in hand; the balance of an Income and Expenditure Account represents the surplus for the year, or the deficit as the case may be.

Errors in Published Accounts. It is not unusual to find some published " Income and Expenditure Accounts " showing the income on the debtor side and the expenditure on the creditor side, and containing the balance from the previous year; in some cases they are even called " Balance Sheets." The nomenclature of such accounts is, of course, quite wrong and very misleading. They are nothing more or less than Receipts and Payments Accounts, and should be so headed. A proper Income and Expenditure Account shows the **expenditure** on the **debtor** side, and the **income** on the **creditor** side, and does ***not*** include any balance from the *previous* year, which would simply make it impossible to arrive at the true income or expenditure for the *current* year.

Example 1. From the following particulars prepare Income and Expenditure Account and Balance Sheet of the " Welcome " Club for the year ended 31st December, 19..—

	£	s.	d.
Capital Account as per last Balance Sheet	1,875	17	3
Library Books	225	11	6
Furniture, Fixtures, and Fittings	476	12	10
Glass, Cutlery, China, House and Table Linen	286	14	9
Annual Subscriptions	675	15	6
Printing, Stationery, and Stamps bought	354	13	2
Hire of Hall (*Cr.* balance)	185	15	6
Cost of Entertainments	72	16	8
Billiard Room Receipts	216	2	10
Rent, Rates, and Taxes	124	13	9
Cash in hand	27	2	4
" at Bank	227	8	10
" on Deposit at 5 per cent	500	–	–
Profit on Sale of Wines and Spirits, Beer, Minerals, Cigars and Tobacco, during the year	99	18	8
Secretary's Honorarium	160	–	–
Sale of Tickets for Entertainments	145	15	6
Salaries of Staff	246	15	6
Entrance Fees	215	15	–
Sale of Tickets for Annual Dinner	79	10	6
Gas and Electric Light	66	16	6
Sundry Creditors	163	9	2
£600 Consols	450	10	8
Dividend on Consols, *less* tax	14	2	6
Audit Fee	21	–	–
Interest on Bank Deposit	23	10	10
Repairs, Cleaning, and Washing	118	3	4
Cost of Annual Dinner	67	11	5
Newspapers and Magazines	58	5	9
Stock of Wines and Spirits, Beer, Minerals, Cigars and Tobacco, 31st Dec., 19..	210	16	3
Stock of Stationery, 31st Dec., 19..	46	4	4

THE WELCOME CLUB

Dr. INCOME AND EXPENDITURE ACCOUNT—For the Year Ended 31st December, 19.. *Cr.*

Expenditure	£	s.	d.	£	s.	d.
To Printing, Stationery, and Stamps	354	13	2			
Less Stock c/f	46	4	4			
				308	8	10
„ Cost of Entertainments				72	16	8
„ Rent, Rates, & Taxes.				124	13	9
„ Honorarium to Secretary				160	–	–
„ Gas and Electric Light				66	16	6
„ Salaries of Staff	246	15	6			
„ „ „ due	17	10	11			
				264	6	5
„ Audit Fee.				21	–	–
„ Repairs, Cleaning, and Washing				118	3	4
„ Cost of Annual Dinner				67	11	5
„ Newspapers and Magazines				58	5	9
„ Depreciation—						
Library Books, 10%, £225 11s. 6d.	22	11	2			
Furniture, etc., 10%, £476 12s. 10d.	47	13	3			
Glass, Cutlery, etc., 10%, £286 14s. 9d.	28	13	6			
				98	17	11
„ Balance (Surplus of Income over Expenditure for the year)				287	6	3
				1,648	6	10

Income	£	s.	d.	£	s.	d.
By Annual Subscriptions	675	15	6			
Add Amount due	12	–	–			
	687	15	6			
Less paid in Advance	20	–	–			
				667	15	6
„ Hire of Hall				185	15	6
„ Billiard Room Receipts				216	2	10
„ Profit from Sale of Wines and Spirits, Beer, Minerals, Cigars, etc.				99	18	8
„ Sale of Tickets for Annual Dinner				79	10	6
„ Entrance Fees				215	15	–
„ Sale of Tickets for Entertainments				145	15	6
„ Dividends on Consols *less* tax				14	2	6
„ Interest on Bank Deposit *less* tax				23	10	10
				1,648	6	10

THE WELCOME CLUB

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Liabilities	£	s.	d.	£	s.	d.	*Assets*	£	s.	d.	£	s.	d.
Sundry Creditors . .				163	9	2	Cash in hand . .	27	2	4			
Subscriptions paid in advance . . .				20	–	–	Cash at Bank . .	227	8	10			
Outstanding Expenses .				17	10	11	Cash on Deposit . .	500	–	–	754	11	2
Capital A/c							£600 Consols . .				450	10	8
Balance, 1st Jan. .	1,875	17	3				Outstanding Subscriptions . . .				12	–	–
Add Surplus for Year as per Income and Expenditure A/c .	287	6	3				Library Books . .	225	11	6			
							Less Depreciation .	22	11	2			
				2,163	3	6					203	–	4
							Furniture, Fixtures, etc.	476	12	10			
							Less Depreciation .	47	13	3			
											428	19	7
							China, Glass, Cutlery, House & Table Linen	286	14	9			
							Less Depreciation .	28	13	6			
											258	1	3
							Stock of Stationery .				46	4	4
							Stock of Wine and Spirits, Beer, Minerals, Cigars, and Tobacco . .				210	16	3
				2,364	3	7					2,364	3	7

Depreciate Library Books, Furniture, Glass, Cutlery, etc., 10 per cent. Of the Subscriptions £20 is paid in advance, and £12 is in arrear. £17 10s. 11d. is owing for Salaries of Staff.

Example 2. Porters and Marshman are equal partners in a business under the title of the Land and Buildings Rental Company. From the following particulars prepare an Income and Expenditure Account and Balance Sheet for the year ended 31st March.

TRIAL BALANCE, 31st March

	Dr. £	s.	d.	*Cr.* £	s.	d.
Repairs, Painting and Decorating	47	11	5			
Bank Interest				30	11	4
Capital A/c, Marshman (1st April)				8,000	–	–
„ „ Porters (1st April)				8,000	–	–
Bank Charges	9	8	7			
S. Smeethe (half-year's Rent to 31st Jan.)	75	–	–			
Sundry Expenses	10	11	6			
Rentals A/c				3,673	15	8
Cash at Bank	2,448	3	9			
Drawings A/c, Marshman	500	–	–			
„ „ Porters	500	–	–			
Income Tax	46	16	3			
Insurance	20	–	–			
Postages and Telegrams	14	1	5			
Settlet Co., Ltd. (half-year's Rent to 31st Dec. last)	120	–	–			
Interest on Mortgage	380	–	–			
Heating and Ventilating	55	16	6			
F. Foothe (half-year's Rent to 28th Feb.)	120	–	–			
Mortgage on Property at 4%				9,500	–	–
Salaries of Secretary and Staff	489	10	–			
Land and Buildings (1st April)	24,500	–	–			
Advertising	65	10	4			
Printing and Stationery	27	13	8			
Sundry Creditors				596	18	1
R. Ruffe (half-year's Rent due 31st Jan.)	200	–	–			
P. Platone (half-year's Rent due 31st Dec. last)	115	–	–			
Audit Fee	15	15	–			
Agent's Commission	40	6	8			
	£29,801	5	1	£29,801	5	1

Three other tenants have paid Rent to 28th February, namely, L. Leake, at £240 per annum; M. Meante, at £180 per annum; N Norre, at £220 per annum.

Depreciate Land and Buildings 1 per cent; charge Interest on Capitals at 5 per cent; and reserve £20 for Repairs.

LAND AND BUILDINGS RENTAL COMPANY

Dr. INCOME AND EXPENDITURE ACCOUNT—For the Year Ending 31st March Cr.

Expenditure	£	s.	d.	£	s.	d.
To Repairs, Painting, and Decorating	47	11	5			
Ditto due	20	–	–			
				67	11	5
„ Sundry Expenses				10	11	6
„ Bank Charges				9	8	7
„ Income Tax				46	16	3
„ Insurance				20	–	–
„ Postage and Telegrams				14	1	5
„ Interest on Mortgage				380	–	–
„ Heating & Ventilating				55	16	6
„ Salaries of Secretary and Staff				489	10	–
„ Advertising				65	10	4
„ Printing and Stationery				27	13	8
„ Audit Fee				15	15	–
„ Agents' Commission				40	6	8
„ Depreciation—Land and Buildings 1%, £24,500				245	–	–
„ Interest on Capital—Porters 5%, £8,000	400	–	–			
Marshman 5%, £8,000	400	–	–			
				800	–	–
„ Balance (Surplus for Year—						
Porters ½	849	7	10			
Marshman ½	849	7	10			
				1,698	15	8
				3,986	17	–

Income	£	s.	d.	£	s.	d.
By Bank Interest				30	11	4
„ Rentals A/c	3,673	15	8			
Ditto accrued—						
S. Smeethe, 2 mos. at £150 p.a.	25	–	–			
Settlet Co., Ltd., 3 mos. at £240 p.a.	60	–	–			
F. Foothe, 1 mo. at £240 p.a.	20	–	–			
R. Ruffe, 2 mos. at £400 p.a.	66	13	4			
P. Platone, 3 mos. at £230 p.a.	57	10	–			
L. Leake, 1 mo. at £240 p.a.	20	–	–			
M. Meante, 1 mo. at £180 p.a.	15	–	–			
N. Norre, 1 mo., at £220 p.a.	18	6	8			
				3,956	5	8
				3,986	17	–

LAND AND BUILDINGS RENTAL COMPANY

BALANCE SHEET AS AT 31ST MARCH, 19..

Liabilities	£	s.	d.	£	s.	d.
Sundry Creditors				596	18	1
Reserve for Repairs				20	–	–
Loan on Mortgage				9,500	–	–
Capital Accounts—						
Porters, 1st Jan.	8,000	–	–			
Add Interest	400	–	–			
Add Share of Surplus	849	7	10			
	9,249	7	10			
Less Drawings	500	–	–			
				8,749	7	10
Marshman, 1st Jan.	8,000	–	–			
Add Interest	400	–	–			
Add Share of Surplus	849	7	10			
	9,249	7	10			
Less Drawings	500	–	–			
				8,749	7	10
				27,615	13	9

Assets	£	s.	d.	£	s.	d.
Cash at Bank				2,448	3	9
Sundry Debtors—						
S. Smeethe (£75 + £25)	100	–	–			
Settlet Co., Ltd. (£120 + £60)	180	–	–			
F. Foothe (£120 + £20)	140	–	–			
R. Ruffe (£200 + £66 13s. 4d.)	266	13	4			
P. Platone (£115 + £57 10s.)	172	10	–			
L. Leake	20	–	–			
M. Meante	15	–	–			
N. Norre	18	6	8			
				912	10	–
Land and Buildings	24,500	–	–			
Less Depreciation	245	–	–			
				24,255	–	–
				27,615	13	9

Special Items in Income and Expenditure Accounts. Instructions are, as a rule, given in the exercises as to the treatment of special items. Extraordinary expenditure is generally spread over a period of years. Donations and Subscriptions are usually credited to Income, and Legacies to Capital. The rules of the association or institution may, however, provide that a certain portion of the Donations and Entrance Fees, or other sources of income, shall be capitalized. Legacies may, in certain cases, be for a definitely specified purpose, and will then require special accounts; while the income therefrom will also require to be separately treated. By way of illustration we append the answer to the second part of Exercise VIII (5), page 266—

"CREEGHTEEN" ENDOWMENT FUND

Dr. RECEIPTS AND PAYMENTS ON CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Cash (Legacy from R. Bowntree, of "Creeghteen," to be invested in trust)	8,000	-	-	By Investments— £3,000 Great Western Railway 4% Debentures	3,285	15	4
				£3,000 Lancashire and Yorks Railway 3% Preference Stock	2,842	10	6
				£2,000 2½% Consols	1,871	14	2
£	8,000	-	-	£	8,000	-	-

"CREEGHTEEN" ENDOWMENT FUND

INCOME ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19— *Cr.*

	£	s.	d.		£	s.	d.
To Grants made to "Creeghteen" cases	122	8	4	By Cash— Dividends on— G.W. Railway Debentures	113	-	-
„ Transfer to Income and Expenditure Account	122	8	4	L. & Y. Railway Pref.	84	15	-
				Consols	47	1	8
	£244	16	8		£244	16	8

NOTE. The first statement is the usual Cash Statement printed and forwarded to patrons of, and subscribers to, such institutions. It is often incorrectly called a "Capital Account," whereas it is in reality only a Cash Account of the Capital moneys, showing what has been received and how it has been invested. If the books are properly kept, the first statement would be represented in the Ledger by the accounts on page 262.

"CREEGHTEEN" ENDOWMENT FUND
CAPITAL ACCOUNT

Dr.		£	s.	d.			£	s.	d. Cr.
						By Cash (Legacy from R. Bowntree, of "Creeghteen," to be invested in trust) . .	8,000	-	-

"CREEGHTEEN" ENDOWMENT FUND
INVESTMENT ACCOUNT

Dr.		£	s.	d.			£	s.	d. Cr.
	To Cash— £3,000 Great Western Rly. Debentures 4% . .	3,285	15	4					
	£3,000 Lancashire and Yorks Rly. 3% Pref. Stock .	2,842	10	6					
	£2,000 2½% Consols	1,871	14	2					
	£	8,000	-	-					

VOYAGE ACCOUNTS

Definition. A Voyage Account is really a Revenue Account, or Profit and Loss Account, relating to the income earned, and the expenditure incurred, by a vessel during a particular voyage. Generally speaking, the voyages are numbered; and a separate account is kept of all expenses and charges pertaining to each voyage, and of the freight earned by each.

Property in British Ships. The property in a British ship is, by an odd law, divided into sixty-four equal parts or shares.

Example. The s.s. *Queenie* started on 1st April on a voyage from *A* to *I* and thence to London. Freights were earned as follows: With timber to *B*, £2,946 10s. 8d.; with coal to *C*, £8,655 9s. 8d.; with sugar to *D*, £3,198 16s. 5d.; with cotton to *E*, £2,783 13s. 10d. The *Queenie* reached London on 31st October. The port charges and disbursements and sundry expenses were: At *A*, £856 3s. 6d.; at *B* outwards, £1,316 10s. 8d.; at *C*, £516 14s. 4d.; at *D*, £638 18s. 9d. at *C* return, £61 10s. 6d.; at *E*, £10 15s. 7d.; at *D* return; £1,108 17s. 3d.; at *F*, £49 19s. 6d.; at *G*, £469 3s. 11d.; at *H*, £306 16s. 6d.; at *I*, £56 11s. 4d.; at London, £786 10s. 5d. The managers' commission amounted to £1,234 5s. 6d.

During the voyage the Wages amounted to £1,485 10s. 2d., and the Coal bill to £2,365 15s. 7d. The premiums for general insurance were at the rate of £2,520 per annum, and for leaving *H* late in the season an extra insurance of £372 10s. 5d. was charged. The insurance on freights and other items was £326 19s. 3d. for the whole voyage.

A balance of £225 10s. 4d. profit was brought forward from the previous voyage, and a sum of £187 17s. 7d. (representing unused stores and provisions) is to be carried forward to the next voyage.

Make up the Voyage Account, and show the amount of dividend received by the owners.

VOYAGE ACCOUNT

Dr. FROM 1ST APRIL TO 31ST OCTOBER *Cr.*

	£	s.	d		£	s.	d.
To Port Charges and Disbursements—				By Freights Earned—			
A	856	3	6	Timber to B . .	2,946	10	8
B outwards . .	1,316	10	8	Coal to C . . .	8,655	9	8
C	516	14	4	Sugar to D . .	3,198	16	5
D	638	18	9	Cotton to E . .	2,783	13	10
C return . .	61	10	6	„ Stock of Unused Stores,			
E	10	15	7	Provisions, etc. . .	187	17	7
D return . .	1,108	17	3				
F	49	19	6				
G	469	3	11				
H	306	16	6				
I	56	11	4				
London . .	786	10	5				
„ Wages	1,485	10	2				
„ Coal	2,365	15	7				
„ General Insurances, 7 months ($\frac{7}{12}$ of £2,520) .	1,470	-	-				
„ Extra Insurance . .	372	10	5				
„ Insurance on Freights, etc.	326	19	3				
„ Managers' Commission .	1,234	5	6				
„ Profit on Voyage c/d .	4,338	15	-				
	£17,772	8	2		£17,772	8	2
To Dividend to Owners, £71 6s. 4d. per share .	4,564	5	4	By Profit b/d . .	4,338	15	-
				„ Balance b/f . .	225	10	4
	£4,564	5	4		£4,564	5	4

QUESTIONS ON CHAPTER VIII

A

1. Why is the distinction between Capital and Revenue of great importance in book-keeping?
2. Define " Capital Expenditure." Give examples.
3. What is meant by " Revenue Expenditure "? Give examples.
4. Discriminate, in the following cases, between " capital " and " revenue " expenditure respectively—

   (*a*) Purchase of Leasehold Premises.
   Annual Depreciation of Lease of same.
   Annual Repairs to same.
   Annual Ground Rent of same.

   (*b*) Installation of Heating and Ventilating Apparatus.
   Annual Charge for maintenance of same.

   (*c*) Purchase of Additional Furniture.
   Annual Depreciation of same.
   Annual Repairs to same.

   (*d*) Purchase of Patent Rights.
   Annual Depreciation of same.
   Annual Renewal Fees for same.

(*e*) Sale of old Machinery (depreciated value in books, £275) for £80, and purchase of new Machinery £1,050 in place of it.
(*f*) Purchase of Second-hand Pumps (additional).
Wages paid to own workmen to fix same.
Immediate Repairs to make same efficient.
Cost of immediate painting of same.

5. Give some examples of " revenue " expenditure becoming, under certain circumstances, " capital " expenditure.
6. Is it ever necessary to apportion one and the same lot of expenditure between both capital and revenue? Illustrate your answer by examples.
7. What is the safe rule to follow as regards " capital," in difficult questions of apportionment?
8. Is there any risk attaching to the non-discrimination between " capital " and " revenue " in the case of receipts?
9. Define " Capital Receipts." Give examples.
10. Explain what is meant by the term " Revenue Receipts." Give examples.

B

1. Define " Revenue Account."
2. What is a " Receipts and Payments Account "?
3. Explain the term " Receipts and Expenditure Account."
4. What do you understand by an " Income and Expenditure Account "?
5. Is there any difference between an Income and Expenditure Account and a Revenue Account? Give reasons for your answer.
6. How would you treat accruing income and expenditure in a Revenue Account?
7. How does a Receipts and Payments Account differ from an ordinary Cash Account?
8. How does a Receipts and Expenditure Account differ from a Profit and Loss Account?
9. Discriminate between a Receipts and Payments Account and an Income and Expenditure Account.
10. Explain a few of the common errors in some of the published accounts that purport to be " Balance Sheets " and " Income and Expenditure Accounts " respectively.
11. Can a balance from a previous year be, properly speaking, shown in an Income and Expenditure Account? Give reasons for your answer.

EXERCISE VIII

1. What is the chief difference between a " Receipts and Payments Account " and an " Income and Expenditure Account "? In what undertakings are these forms of accounts respectively made use of? (*Royal Society of Arts.*)

2. Is there any difference between a Receipts and Payments Account and an Income and Expenditure Account?

The following particulars relate to the Chilworth Literary Society for the year ended 31st December: Subscriptions received, £110; Interest received on Investment, £38; net proceeds received from Lectures and Concerts, £232; Rent paid for use of Hall, £21; Petty Cash Payments, £10; Advertising paid, £21; Printing Expenses paid, £12 10s.

The Society holds ten 4 per cent debentures of £100 each in the Universal Library, Ltd. As on 31st December, the Society owed £8 for Rent of Hall and £9 10s. for Printing.

Prepare the Society's Annual Statements of Account for the year ended 31st December. (*London Chamber of Commerce.*)

3. From the following, prepare in correct style the Income and Expenditure Account of the Carlton Club for the year ended 31st December—

Rent, Rates, and Taxes (not paid)	£50
Fuel and Gas	40
Caretakers' Wages	68
Printing and Stationery	30
Repairs	12
Salaries	100
Subscriptions due or accrued	200
Donations	50
Billiard Room	60
Refreshment Room	100
Sunday Hiring	20

(Balance to be shown.) (*National Union of Teachers.*)

4. From the following particulars, prepare Revenue Account and Balance Sheet of the "Green Lanes" Golf Club for the year ended 31st December. The Club's Articles of Association provide that half of each original member's subscription, and half the entrance fees of other members are to be credited to Capital, and half of any surplus of Revenue is to be placed to a Reserve Fund.

Receipts for the Year. Subscriptions from 140 original members @ £5 5s.; 220 Additional Members' Entrance Fees @ £1 1s., and Subscriptions @ £5 5s. Interest on Deposit, *less tax*, £10 3s. 4d. Sales of Provisions and Liquors, £637 18s. 2d. Half-year's Grazing Rent to 30th June @ £45 per annum. Loan, £900 @ 4 per cent.

Payments for the Year. Club Manager's Salary, £250. Greenkeeper's Wages, £150. Rent, £550. Interest on Loan, £36. Cost of Annual Dinner, £100. Sundry Expenses, £53 8s. 1d. Taxes and Insurance, £72 13s. 8d. Servants' Wages, £58 5s. Fuel, Lighting, and Cleaning, £53 10s. 11d. Liquors and Provisions purchased, £873 16s. 4d. Furniture purchased, £55 13s. 6d. Furnishings purchased, £25 10s. 2d. Repairs as per plumber's accounts, £5 2s. 7d. Repairs as per joiner's accounts, £7 3s. 4d. Printing and Stationery, £38 15s. 9d. J. Jones, builder (Club Premises Account), £275 15s. 4d. A. Brown, joiner (Club Premises Account), £520 10s. R. Roe, architect (Club Premises Account), £120. T. Tims, painter (Club Premises Account), £52 10s. 6d.

On 31st December the Cash in hand was £27 10s. 8d., the Cash at Bank, £95 5s. 8d.; the Cash on Deposit @ 4 per cent, £270; the Stock of Provisions and Liquors, £286 14s. 9d.

Charge Depreciation on the total cost of Club Premises at 3 per cent, on Furniture at 2½ per cent, and on Furnishings at 15 per cent.

5. From the following particulars prepare Income and Expenditure Account of the "Bartimaeus" Home for the Blind, for the year ending 31st December. Show also the "Creeghteen" Endowment Fund Capital and Income Accounts.

Trial Balance Debits. Servants' Wages, £286 4s. 2d. School Expenses, £157 13s. 8d. Coal, Gas, and Water, £274 8s. 9d. Clothing, £426 16s. 6d. Printing, Stationery, and Advertising, £106 12s. 4d. General Charges, £117 11s. 10d. Provisions, £1,046 5s. 7d. Repairs and Maintenance, £306 10s. 5d. Salaries of Head Officials, £1,072 4s. 6d. Legal and Accountancy Fees, £21 8s. 3d. Rates, Taxes, and Insurance, £156 3s. 9d. Grants to ex-pupils, £542 10s. 6d. Trading deficit on Workshops, £54 4s. 8d. New Drainage, £375 12s. 2d. "Creeghteen" Endowment Fund Investment Account, £8,000 (Nominal Value, £11,500). Cash in hand, £44 16s. 3d. Cash at Bank, £2,075 12s. 8d. Investments Account (total as per Schedule), £85,068 10s. 6d. Accrued Interest on Investments, £896 14s. 2d. Stocks on hand, 31st December (Clothing, Provisions, Stationery, Baskets, Brushes, Mats, Upholstery, etc.,

as per separate Schedules), £753 5s. 11d. Trading Loss on Upholstering Department, £10 15s. 6d.

Trial Balance Credits. Sundry Creditors, £515 11s. 7d. "Creeghteen" Endowment Fund Account, £8,000. Legacies received during year, £5,200. Capital Account (1st January), £82,828 3s. 3d. Profits on Manufacturing and Trading Departments; Baskets, £58 15s. 3d.; Brushes, £29 10s. 2d.; Mats, £34 16s. 8d. Income from Investments, £3,050 10s. 10d. Education Dept. Grants, £356 12s. 6d. General Donations, £100. Subscriptions, £340 10s. 6d. Inmates' Payments, £752 14s. 4d. Proceeds of Concerts, £142 9s. 9d. Proceeds of Collections, £207 16s. 3d. Bank Interest, £54 2s. 8d. "Creeghteen" Endowment Income (£244 16s. 8d., *less* Grants to "Creeghteen" cases), £122 8s. 4d.

The "Creeghteen" Endowment Fund consists of a legacy of £8,000 from R. Bowntree, Esq., to be invested in trust. Half the income is to be applied to the relief of blind persons resident in "Creeghteen," and the other half to the general purposes of the Home. The Fund is represented by the following Investments: £3,000 Great Western Railway 4 per cent Debentures, cost £3,285 15s. 4d.; £3,000 Lancashire and Yorks Railway 3 per cent Preference Stock, cost £2,842 10s. 6d.; £2,000 Consols, 2½ per cent, cost £1,871 14s. 2d.

The expenditure on New Drainage is to be spread over three years.

6. The s.s. *Queenie* made eight voyages with the following results—

No. 1. Profit, £1,763 10s. 8d.	No. 2. Profit, £1,942 16s. 7d.
No. 3. Profit, £2,146 3s. 10d.	No. 4. Profit, £3,730 14s. 4d.
No. 5. Loss, £986 11s. 10d.	No. 6. Profit, £5,018 18s. 8d.
No. 7. Profit, £2,345 6s. 7d.	No. 8. Loss, £554 5s. 6d.

Make up the ship's Net Revenue Account, and state what dividend the owners will receive.

7. Duckle & Drake are equal partners in a business under the style of The Land and Buildings Lettings Co. From the following particulars prepare Revenue Account, Net Revenue Account, and Balance Sheet for the year ended 31st March.

TRIAL BALANCE, 31ST MARCH, 19..

Debits. Agents' Commission, £80 13s. 4d. Repairs, Painting, and Decorating, £95 2s. 10d. Audit Fee, £31 10s. Bank Charges, £18 17s. 2d. P. Pucke (half-year's Rent to 31st December last), £230. S. Steavens (half-year's Rent to 31st January), £150. R. Reeke (half-year's Rent due 31st January), £400. Sundry Expenses, £21 3s. Printing and Stationery, £55 7s. 4d. Cash at Bank, £4,896 7s. 6d. Advertising, £131 0s. 8d. Drawings Account, Duckle, £1,000. Drawings Account, Drake, £1,000. Land and Buildings (1st April), £49,000. Income Tax, £93 12s. 6d. Salaries of Secretary and Staff, £979. Insurance, £40. F. Feeckle (half-year's Rent to 28th February), £240. Postages and Telegrams, £28 2s. 10d. Heating and Ventilating, £111 13s. Steelton Co., Ltd. (half-year's Rent to 31st December last), £240. Interest on Mortgage, £760.

Credits. Sundry Creditors, £1,193 16s. 2d. Bank Interest, £61 2s. 8d. Loan on Mortgage at 4 per cent, £19,000. Capital Account, Duckle (1st April), £16,000. Capital Account, Drake (1st April), £16,000. Rentals Account, £7,347 11s. 4d.

Depreciate Land and Buildings 1 per cent. Charge Interest on Capitals at 5 per cent. Reserve £40 for Repairs.

Three other tenants have paid Rent to 28th February, namely, L. Loomthe at £480 per annum, M. Moone at £360 per annum, and N. Nette at £440 per annum.

8. From the following particulars, prepare Income and Expenditure Account and Balance Sheet of the "Kreek Ffynche" Nursing Home for the year ended 31st December.

Cash on Current Account, £362 4s. 8d. Cash on Deposit Account, £350. Fees paid by Patients, £1,056 16s. 10d. Salaries of Nurses and Superintendents, £362 8s. 5d. Premises, £4,250 12s. 6d. Furniture and Fixtures, £827 13s. 4d. Creditors, £150. Wages, £124 14s. 3d. Provisions, £383 7s. 10d. Salaries of Secretary and Treasurer, £300. Donations and Subscriptions, £826 2s. 8d. Medicines and Surgical Appliances, £106 10s. 5d. Investments, £1,756 12s. 2d. Interest on Deposit *less tax*, £13 3s. 8d. Taxes and Insurance, £86 16s. 6d. L. Loop for endowment of "Loop" bed, *Cr.* £850. Repairs, £238 3s. 10d. Collectors' Commission, £36 11s. 9d. Printing and Stationery, £120 6s. 8d. Capital Account (1st January), £6,480 16s. 6d. Sundry Expenses, £18 15s. 5d. Dividends on Investments *less tax*, £62 1s. 9d. Fuel, Lighting, and Cleaning, £108 18s. 8d. Auditors' Fees, £5 5s.

Depreciate Premises 2½ per cent, and Furniture 5 per cent. The Stock of Provisions at 31st December was £37 13s. 4d.

9. From the following Trial Balance of "*Ye Olde Swelle*" *Club*, prepare Income and Expenditure Account and Balance Sheet for the year ending 30th September.

TRIAL BALANCE. 30TH SEPT.

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Annual Subscriptions				1,351	11	–
Entrance Fees				431	10	–
Sale of Tickets for Entertainments				291	11	–
Dividends on Consols *less tax*				28	5	–
Printing, Stationery, and Stamps	709	6	4			
Honorarium to Secretary	320	–	–			
Repairs, Cleaning, and Washing	236	6	8			
Cost of Entertainments	145	13	4			
Sale of Tickets for Annual Dinner				159	1	–
Newspapers and Magazines	116	11	6			
Hire of Hall				371	11	–
Profit on Sale of Wines and Spirits, Beer, Minerals, Cigars and Tobacco				199	17	4
Rent, Rates, and Taxes	249	7	6			
Salaries of Staff	493	11	–			
Interest on Bank Deposit *less tax*				47	1	8
Cost of Annual Dinner	135	2	10			
Gas and Electric Light	133	13	–			
Receipts from Billiard Rooms				432	5	8
Auditor's Fee	42	–	–			
Cash in hand	54	4	8			
Cash at Bank	454	17	8			
Cash on Deposit at 5%	1,000	–	–			
Sundry Creditors				326	18	4
£1,200 Consols	901	1	4			
Capital A/c, 1st October				3,751	14	6
Library Books	451	3	–			
Furniture, Fixtures, and Fittings	953	5	8			
Glass, Cutlery, China, House, and Table Linen	573	9	6			
Stock of Wines and Spirits, Beer, Minerals, Cigars, and Tobacco, 30th September	421	12	6			
	£7,391	6	6	£7,391	6	6

Of the Subscriptions, £40 is paid in advance; there is also £24 in arrear. Depreciate Library Books, Furniture, Glass, Cutlery, etc., at 10 per cent. Stock of Stationery, 30th September, £92 8s. 8d.; £35 1s. 10d. has accrued for Salaries of staff.

10. From the following particulars draw up the Voyage Account of the s.s. *Petrelle*. The voyage was from *K* to *L*, thence to *M*, *N*, *O*, and back to Liverpool.

The port expenses were as follows—

At *K*: Port Charges and Disbursements, £752 10s. 11d. Cash to Captain, £42. Advances to Crew, £68 13s. 4d.

At *L*: Port Charges and Disbursements, £1,275 15s. 6d. Funeral Expenses and Hospital Fees of Crew, £47 2s. 5d. General Average Charges, £896 3s. 8d. Tobacco, £7 2s. 6d.

At *M*: Cash to Captain, £110 2s. 7d. Port Charges and Disbursements, £375 19s. 9d. Claims on Cargo, £92 1s. 10d. Advances to Crew, £45.

At *N*: Port Charges and Disbursements, £37 15s. 4d. Cash to Captain, £25 14s. 4d. Sundry Stores, £11 3s. 9d.

At *O*: Port Charges and Disbursements, £298 18s. 8d. Advances to Crew, £25. Tobacco, £3 11s. 7d.

Freights Earned: *K* to *L*, £4,128 17s. 3d.; *L* to *M*, £2,063 10s. 5d.; *M* to *N*, £3,856 11s. 2d.; *N* to *O*, £3,198 10s. 10d.

Shipping Fees Received, £7 2s. 6d. Sale of Old Stores, £25 2s. 9d. Outfit and Provisions, £795 15s. 5d. Wages, £1,946 6s. 8d. Forfeited Wages, £78 10s. 4d.

Insurance Premiums: On Freight and Disbursements, £1,956 12s. 2d. On Protection, Indemnity, and Club Calls, £156 13s. 9d. Extra Insurance at *N*, £15 15s.

Commission: To Charterers, £786 17s. 3d. To Management, 2 per cent on gross freight. Brokerage, £72 5s. 6d.

11. From the following particulars prepare Income and Expenditure Account and Balance Sheet of the "Sleethorpe" Progressive Club for the year ended 31st December.

Trial Balance Debits. Printing, Stationery and Newspapers, £127 13s. 8d. Repairs, £175 10s. 2d. Wines, Spirits, and Cigars, £356 4s. 7d. Alterations and Improvements to Premises, £950 15s. 3d. Cash in hand, £10 14s. 6d. Cash at Bank, £575 10s. 8d. Salary of Secretary, £120. Sundry Debtors, £46 2s. 5d. Stock of Wines, Spirits, and Cigars (1st January), £75 16s. 4d. Servants' Wages, £372 13s. 6d. Rent, £250. Rates and Taxes, £78 10s. 6d. Fuel, Lighting, Cleaning, and Washing, £257 13s. 7d. Furniture and Fixtures, £475 15s. 8d. Legal Expenses, £6 6s. Expenses of Conversazione, £20 10s. 10d.

Trial Balance Credits. Subscriptions, £987 15s. 6d. Creditors, £475 3s. 4d. Bar and Billiard and Card Room Receipts, £356 10s. 2d. Sale of Wines, Spirits, and Cigars, £572 13s. 3d. Capital Account (1st January), £1,257 15s. 5d. Special Levy on Members, £250.

Depreciate Furniture and Fixtures 10 per cent, and write £120 off Alterations and Improvements to Premises. Stock of Wines, Spirits, and Cigars on 31st December, £72 10s. 5d.

12. The s.s. *Kathleen* started on 1st February on a voyage from *K* to *S*, and thence to Cardiff. Freights were earned as follows: On coal to *L*, £5,893 1s. 4d.; on timber to *M*, £17,310 19s. 4d.; on cotton to *N*, £6,397 12s. 10d.

on sugar to *O*, £5,567 7s. 8d. The *Kathleen* reached Cardiff on 31st August. The Port Charges and Disbursements, Sundry Stores, Expenses, etc., were: At *K*, £1,712 7s.; at *L*, outwards, £2,633 1s. 4d.; at *M*, £1,033 8s. 8d.; at *N*, £1,267 17s. 6d.; at *M*, return, £123 0s. 2d.; at *O*, £21 11s. 2d.; at *N*, return, £2,207 14s. 6d.; at *P*, £99 19s.; at *Q*, £938 7s. 10d.; at *R*, £613 13s.; at *S*, £113 2s. 8d.; at Cardiff, £1,573 0s. 10d. The Manager's Commission amounted to £2,468 11s.

During the voyage the Wages amounted to £2,971 0s. 4d., and the Coal bill to £4,731 11s. 2d. The premiums for general insurance were at the rate of £5,040 per annum, and for leaving *R* late in the season an extra insurance of £745 0s. 10d. was charged. The insurance on freights and other items was £653 18s. 6d. for the whole voyage.

A balance of £450 19s. 10d. profit was brought forward from the previous voyage, and a sum of £375 15s. 2d. (representing unused stores and provisions) is to be carried forward to next voyage.

Make up the Voyage Account, and show the amount of dividend received by the owners.

13. The following is the published account of a provincial Charitable School—

BALANCE SHEET

FOR THE YEAR ENDING 31ST DECEMBER, 19—

	£	s.	d.		£	s.	d.
To Government Grants—				By Alterations and Repairs	76	2	3
Ordinary £2,060 10 6				,, Salaries and Wages	754	13	5
Special 120 3 6				,, Washing and Cleaning	287	9	9
	2,180	14	–	,, Fuel, Lighting, and Heating	126	16	6
,, Councils' Grants—				,, Furniture	296	10	2
Ordinary £1,026 10 6				,, Clothing	317	17	7
Outfits 55 16 8				,, Printing and Stationery	88	18	5
	1,082	7	2	,, Outfits	76	16	6
,, Subscriptions	126	10	6	,, Rates, Taxes, and Insurance	85	13	3
,, Interest	19	10	8	,, Boys' Reward	20	10	6
,, Receipts from Band	72	10	11	,, Medical Expenses	43	7	5
,, Sundry Profits	126	16	9	,, Band Expenses	175	11	10
,, Profits of Farm	98	10	2	,, Loss on Workshops	26	9	9
,, Profits of Gardens	29	12	5	,, Travelling Expenses	63	17	2
,, Balance (Loss for year)	260	10	3	,, Cost of Entertainments	36	15	9
,, Rents of Land	156	10	6	,, Provisions	1,027	3	3
				,, Postages	36	12	8
					3,541	6	2
				Special Expenditure—			
				New Drainage £475 15 8			
				Improvements to Premises 136 11 6			
					612	7	2
£	4,153	13	4	£	4,153	13	4

What criticism have you to offer on the above?

14. From the following particulars of the "Lumley" Aviation Club prepare Revenue Account for the year ended 31st December.

Receipts for the Year. Subscriptions, £1,272 10s. 6d. Interest on Investments, £44 2s. 3d. Proceeds of Sale of Journal, £175 15s. 4d.

Expenditure for the Year. Salaries, £327 10s. 6d. Deputation Expenses, £40. Annual Dinner and Entertainment, £72 13s. 11d. Journal Expenses,

£146 8s. 5d. Postages, £15. General Expenses, £10 14s. 4d. Printing and Stationery, £37 2s. 9d. Year Book Expenses, £136 7s. 7d. Rent, Rates, and Taxes, £346 12s. 6d. Fuel, Lighting, and Cleaning, £56 6s. 2d. Lecture Expenses, £75. Legal Expenses, £7 12s. 6d. Auditors' Fees, £10 10s.

15. The "Glenisla" Steamship Co., Ltd., owns one "tramp steamer," the s.s. *Glenisla*, 2;211 tons gross register, which was chartered on 27th February as follows—

Cardiff to Genoa with Coal at 8s. 9d. per ton.

NOTE. The charter stipulates for an address commission to the charterers of 2 per cent on the freight, payable on signing Bill of Lading, together with a brokerage of 5 per cent to the charterers' agents, of which one-third is repayable to the vessel.

Agua Amarga (Spain) to Barrow with Ore at 8s. 3d. per ton.

NOTE. Address commission of 2½ per cent on freight payable to charterers, and a brokerage of one-third of 5 per cent payable to charterers' agents on signing charter.

The vessel was insured at Lloyd's on the previous 29th April, the inclusive premium for one year being £1,952 10s. 8d., and the managing owners' remuneration was fixed by the Articles of Association at 2s. 6d. per gross register ton per annum.

The voyage commenced on 9th March, and the following are the particulars from which the accounts are to be made up—

	£	s.	d.
Freight on 3,190 tons Coal to Genoa, and freight on 3,660 tons Ore to Barrow—			
Stores Accounts	162	8	1
Port Charges, Trimming, etc., Cardiff	121	2	3
Captain's Accounts for Harbour Wages, etc., Cardiff	64	7	6
Bunker Coals, as per Engineer's Receipt—279 tons at 9s.; 154 tons at 8s. 11½d.			
Discharging at Genoa	93	15	3
Agents' Disbursements, Genoa, deducted from freight remitted (exch. 27.22), lire 3012.80.			
Captain's Expenses, Genoa	7	19	–
Stevedore at Agua Amarga, loading 3,660 tons Ore	152	10	–
Dispatch Money	213	13	4
Interest on Advance	10	19	9
Captain's Expenses	5	15	9
Agents' Accounts for Port Charges, Agency, etc., exclusive of address Commission and Brokerage (exch. 26.75), pesetas 2,964.88.			
Bunker Coals at Portland, 20 tons at 18s. 6d., and Port Charges, £3 2s.			
Port Charges, Discharging and Dispatch Money at Barrow	423	7	6
Captain's Portage Bill	168	6	8
Overlookers' Expenses	4	5	–

The voyage terminated on 28th April.

Prepare the Voyage Account, showing the net profit or loss. (*Chartered Accountants.*)

16. From the following Trial Balance of the "Linkley" Steam Navigation Co., prepare Revenue Account, Net Revenue Account for the half-year ended 31st May, and Balance Sheet as on that date.

TRIAL BALANCE. 31st May, 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Bills Receivable	658	10	2			
Brokerage and Commission . .	1,073	5	5			
Trade Creditors				4,320	17	7
Victualling	3,517	18	9			
Coals (Bunkers)	10,718	15	4			
Damages, Repairs, and Renewals .	8,075	13	6			
Underwriting A/c				2,500	–	–
Wages	7,569	11	10			
Port Charges and Disbursements .	4,329	7	3			
Directors' Fees	625	15	6			
Interest on Mortgage . . .	140	–	–			
Mortgages @ 4%				7,000	–	–
Sundry Debtors	7,508	18	9			
Steamers	195,208	10	6			
Freight A/c				75,616	14	4
Office Rents, Rates, and Taxes .	557	13	9			
Accountancy Fees . . .	120	10	6			
Loading and Discharging Expenses	4,566	4	8			
Sundry Stores	1,015	17	5			
Bills Payable				2,465	18	9
Printing, Stationery, and Postages .	785	3	10			
Engineers' Charges . . .	1,019	4	7			
Proprietors' Capital . . .				150,000	–	–
A. & M. Bank, Ltd. . . .				2,516	14	8
Commission to Agents . . .	75	13	9			
Reserve for Freight on Uncompleted Voyages as at 31st May . .				3,146	10	2
	247,566	15	6	247,566	15	6

Five per cent of the profit is to be carried to the Underwriting Account, after which the Managers are entitled to 5 per cent Commission. The Steamers are valued at £190,000 on 31st May.

17. From the following particulars make up a Receipts and Payments Account for the year ending 31st December—

	£	s.	d.
Cash in hand and at Bank 1st January	274	13	2
Subscriptions for the year	45	10	6
Purchases of Furniture during the year	25	15	6
Stationery and Printing during year	14	13	2
Postages and Petty Expenses during year	10	9	8
Receipts from sale of Tickets for Annual Dinner . . .	66	10	6
Expenses of Annual Dinner and Entertainment . . .	47	2	10
Grants made for benevolent purposes	15	15	–
Engraving Coat of Arms	3	3	–
Interest on Bank Deposits	3	10	5

REVISION EXERCISE VIII

1. If, on comparing your Bank Cash Book Balance with your Bank Pass Book Balance, you found that the two did not agree, what steps would you take to check the correctness or otherwise of your Bank Cash Book, and

what would be the principal differences you would expect to find? *(Royal Society of Arts.)*

2. What is a "Suspense Account"? Give a few examples: (*a*) of legitimate purposes for which such an Account may be used; (*b*) of errors which the abuse of a Suspense Account may cover. *(London Chamber of Commerce.)*

3. State the advantages or disadvantages of Loose-leaf Ledgers. *(Lancashire and Cheshire Union.)*

4. Jackson & Co., of Middlesbrough, sell to Williamson & Co., of Sheffield, 25 tons Hematite Iron at 49s. 4d. cash in a month; Invoice was sent in due course, but at the end of the time allowed for payment, Williamson & Co. asked Jackson & Co. to draw on them at three months for the amount of Invoice, adding 1 per cent for commission, with 5 per cent for discount on the bill; this was agreed to—the bill was drawn and accepted, and duly met at maturity. Prepare the necessary Day Book, Journal, Cash Book, and Ledger Entries as you would expect to find them in Jackson & Co.'s books. *(London Chamber of Commerce.)*

5. Arthur Holt keeps his "Sales Ledger" on the "self-balancing" principle. From the following particulars prepare the necessary "Adjustment Account" as at 31st March—

			£	s.	d.
Mar.	1.	Debtor's balances at this date	6,271	–	–
,,	31.	Acceptances dishonoured by customers during the month	271	–	–
,,	31.	Cash received from customers for month . .	7,810	10	–
,,	31.	Goods returned by customers for month . .	471	–	–
,,	31.	,, sold to customers for month . . .	10,829	–	–
,,	31.	Customers' acceptances during month . .	1,735	10	–
,,	31.	Discount allowed to customers for month . .	484	–	–

6. How would you deal with Consignments (*a*) In the books of the consignor? (*b*) In the books of the consignee? *(Lancashire and Cheshire Union.)*

7. A merchant has bought goods due as under—

£660 due 91 days previous to 18th July.
£375 ,, 55 ,, ,, ,,
£600 ,, 18 ,, ,, ,,
£1,050 ,, on 18th July.

He wishes to pay for them on the average due date. What sum must he pay, and when must he pay it?

8. On 1st April, S. Sund accepts a three months' bill for £150 drawn on him by M. Moon for their mutual convenience. The bill is then discounted by Moon at 3½ per cent., and half the proceeds handed to Sund. At maturity Moon sends a cheque to Sund, who then pays the bill. Show the Ledger accounts in the books of both parties.

9. On 1st January, A. Stevenson bought goods value £1,100 and consigned them to L. Lanng as a joint speculation, profits being divisible equally. On the same date he paid Carriage and Freight, £70; Insurance, etc., £25 4s.; and drew on Lanng at two months for £600 on account, discounting the bill on 4th January for £597 10s. On receipt of the goods on 1st February Lanng paid Dock Dues and Cartage, £30; and Government Duty, Insurance, etc., £40. On 31st May, Stevenson received an Account Sales showing that on 30th April the goods had realized gross £1,640, and that Lanngs' disbursements made on the same date were: Storage, £30; Sundries, Brokerage, and Expenses of Sale, £100. Lanng also enclosed a sight draft for amount due

at 31st May. Prepare a general statement showing the result of the venture, and write up the accounts in Stevenson's and Lanng's Ledgers respectively. Interest is to be brought into account at the rate of 5 per cent per annum.

10. J. Skinner and H. Fuller are in partnership as wholesale grocers. The balances of their Capital Accounts were equal as on 31st December. In addition to the balances of the Capital Accounts, the following balances appeared in the books—

	£	s.	d.		£	s.	d.
J. Skinner (Drawings Account)	971	10	–	Sundry Debtors	7,982	13	4
H. Fuller (Drawings Account)	842	12	6	„ Creditors	3,641	12	2
Office Salaries	979	7	6	Purchases	10,724	12	5
General Expenses	174	19	7	Sales	28,990	15	–
Factory and Warehouse Wages	2,356	17	4	Rents received	76	–	–
Rates, Taxes, and Insurance	470	4	10	Carriage Inwards	374	3	3
Repairs and Renewals	142	3	–	„ Outwards	537	4	7
Manufacturing Expenses	371	12	4	Plant, Machinery, and Fixtures	1,489	6	8
Legal Expenses and Audit Fee	67	2	–	Freehold Land and Buildings	6,237	16	–
Travellers' Expenses and Commission	547	–	7	Stock in hand (1st Jan.)	7,047	11	4
Advertising	12,127	4	2	Postage and Stationery	243	14	1
Discount Account (Debit Balance)	124	18	1	Bad Debts written off	141	9	4
				Purchases Returns	351	4	6
				Sales Returns	1,240	5	–
				Cash at Bank	1,110	19	–
				„ in hand	112	12	7

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date.

Before preparing these accounts, it is necessary to take the following matters into consideration—

(*a*) 10 per cent Depreciation is to be written off Plant, Machinery, and Fixtures.

(*b*) J. Skinner withdrew Capital to the extent of £1,000 on 30th June.

(*c*) Reserve for Bad and Doubtful Debts, amounting to 2½ per cent on the Debtors, is to be created.

(*d*) Interest on Capital (but not on Drawings) is to be charged at the rate of 5 per cent per annum.

(*e*) Carry forward Insurance unexpired and Rates paid in advance (£18 8s. 2d. and £24 7s. 6d. respectively).

(*f*) The amount to be charged against the Profit and Loss Account for advertising is to be reckoned as 20 per cent on the net sales; the balance of the Advertising Account is to be carried forward.

(*g*) The partnership agreement provides that losses are to be borne equally by the Partners, but that profits are to be divided as follows—

$\frac{2}{5}$ths to J. Skinner.
$\frac{2}{5}$ths to H. Fuller.
$\frac{1}{5}$th to be set aside for division amongst employees.

(*h*) The Stock in hand on 31st December was valued and agreed at £6,954 12s. 2d. (*London Chamber of Commerce.*)

CHAPTER IX

DEPARTMENTAL ACCOUNTS

Definition. Departmental Accounts are accounts relating to the several departments, or divisions, of a business, it being desired to ascertain the trading results of each department, or class of goods, separately.

Analytical Purchases and Sales Books. To attain the above-mentioned end it is necessary to keep analytical Purchases and Sales Books. The following are specimens—

DEPARTMENTAL PURCHASES BOOK

Date	Name	Led. Fol.	Total	Dept. 1	Dept. 2	Dept. 3	Dept. 4

DEPARTMENTAL SALES BOOK

Date	Name	Led. Fol.	Total	Drapery	Hosiery	Outfitting	Boots

The headings of the columns vary; sometimes the departments are lettered, e.g. " A," " B," " C," etc., sometimes numbered, sometimes named, as in the two examples. Whenever analysis is resorted to, there must always be a " Total " column. The object of this is to afford a check upon the arithmetical accuracy of the

tabular columns. By means of cross casting it is possible to see whether the total of the analysis columns is equal to the sum of the " total " column. This will also prove whether any item has been omitted in the analysis. Similar rulings will be required for the Purchases Returns Book and the Sales Returns Book.

Procedure in Ledger. Where a Departmental Trading Account is not desired, the Ledger Account of each department will be in simple form, thus—

Dr. "A" DEPARTMENT *Cr.*

	To Stock .						By Sales .				
	„ Purchases .						„ Returns Outwards .				
	„ Carriage .						„ Stock .	c/d			
	„ Returns Inwards .										
	„ Wages .										
	„ P. & L. (gross profit) .										
	To Balance .	b/d									

Where a Departmental Trading Account is required, the Ledger Accounts will be more elaborate. It will be necessary to open separate Stock, Purchases, Sales, Returns, and Wages Accounts for each department or class of goods. The following are examples—

Dr. STOCK ACCOUNT—COFFEE *Cr.*

Dr. PURCHASES ACCOUNT—COFFEE *Cr.*

Dr. PURCHASES RETURNS ACCOUNT—COFFEE *Cr.*

Dr. SALES ACCOUNT—COFFEE *Cr.*

Dr. WAGES ACCOUNT—COFFEE *Cr.*

Dr. TRADING ACCOUNT—COFFEE *Cr.*

Sometimes the departmental principle is adopted even in the Ledger Accounts themselves, thus—

Dr. STOCK *Cr*

Date	Particulars	Dept. A	Dept. B	Total	Date	Particulars	Dept. A	Dept. B	Total

This form would not be applicable where many departments were kept separately, as it would necessitate a Ledger of a very inconvenient size.

Advantages of Departmental Accounts. By means of departmental accounts it becomes possible, at balancing time, to ascertain the *gross* profit of each department or class of goods. Some businesses are content with this. Others go further and analyse all the expenses as well, in order to arrive at the *net* profit of each department or class of goods. The business, taken as a whole, might be yielding a satisfactory net profit, and yet one particular department might be running at a loss. Only departmental Profit and Loss Accounts will reveal this fact. Further, the results of different years may be collected and compared, and much valuable information gained therefrom. Such decided advantages, therefore, fully compensate for the extra trouble involved in analysing the transactions, and in keeping additional Ledger Accounts.

Inter-Departmental Transactions. Purchases from, and Sales to, other departments must be carefully recorded. They are sometimes added to the respective Purchases and Sales Accounts, and sometimes dealt with in separate accounts. Much depends on the price at which such transfers are charged, whether at cost, or at cost plus a small departmental profit. When such transfers of goods are made at cost, they should certainly not be credited as Sales by the issuing department. It is better to credit them to a separate account entitled " Goods issued to Other Departments." At balancing time, these transfers must be debited to the Trading Account of the receiving department, and credited to the Trading Account of issuing department, that is, if they have not already been merged in the departmental Purchases and Sales Accounts.

Allocation of Indirect Expenses. Indirect or selling expenses may be allocated between the departments in four different ways: (1) by means of direct analysis; (2) according to the amount of floor space occupied by each department; (3) in proportion to the turnover of each department; (4) according to the number of articles sold. It is seldom possible to arrive at the exact amount by means of direct analysis, and the turnover method is considered to yield the fairest results.

Different Methods of Allocation for Items in the same Trading and Profit and Loss Account. Sometimes the allocation of expenses is dealt with before the Trading Accounts are prepared. This is generally the case where different methods of allocation are used for different items. Thus, Rent, Rates, and Taxes may be apportioned according to the floor space occupied by each department. Wages and Salaries are generally analysed. Insurance Premiums may be apportioned according to the ratio that each department's stock bears to the total departmental stocks insured. Workmen's Compensation Insurance may be divided in the ratio that each department's wages and salaries bear to the total departmental wages and salaries. The apportionment of Printing and Stationery is generally the result of direct analysis, the amounts issued being charged to the departments by the storekeeper. Carriage, Postage, Repairs, Office Expenses are sometimes allocated according to the results of direct analysis, and sometimes in fixed or agreed proportions. The amount of Discounts Allowed, including Reserves for such discounts, is often allocated between the departments in the ratio that each department's sales bear to the total departmental sales for the year. The amount of Discounts Received, including the Reserves for such discounts, is then, likewise, allocated between the departments in the ratio that each department's purchases bear to the total departmental purchases for the period. Depreciation can, sometimes, be charged direct to the departments according to the value of the assets held by them. Often, however, Depreciation,

Interest on Capital, Legal Expenses, Bank Charges, and other items cannot be satisfactorily apportioned; and in, such cases, they are usually left intact, and finally carried to a General Profit and Loss Account.

1. Allocation of Expenses by means of Direct Analysis.

Example. X, Y, and Z are equal partners in a business, and are entitled to interest at 5 per cent per annum on their respective Capitals before the division of profits. All other adjustments have been made, and from the following particulars you are requested to draw up Trading and Profit and Loss Accounts and Balance Sheet, showing the gross and net profits of each department, and the percentages of gross and net profit on turnovers respectively—

	£	s.	d.
Cash at Bankers	2,029	14	9
,, in hand	620	15	5
,, Creditor	1,500	–	–
Horses, Carts, etc.	625	15	6
Fixtures, Fittings, etc.—			
A Dept.	4,726	10	5
B ,,	3,841	9	11
Capital Accounts—			
X (1st Jan.)	25,971	5	8
Y (,,)	18,432	10	7
Z (,,)	15,617	3	10
Drawings Accounts—			
X	2,500	–	–
Y	1,750	–	–
Z	1,540	–	–

A Department

	£	s.	d.
Stock (1st Jan.)	37,418	10	5
Purchases	65,158	9	2
Sales	89,527	16	6
Trade Expenses	12,107	13	4
Discounts Allowed	2,517	6	2
,, Received	2,067	13	8
Housekeeping Expenses	1,975	10	10
Sundry Creditors	6,162	19	2
,, Debtors	16,703	12	5

Stock, 31st December, £35,463 15s. 7d.

B Department

	£	s.	d.
Stock (1st Jan.)	7,672	14	5
Purchases	38,516	3	10
Sales	47,732	17	6
Discounts Allowed	1,743	2	8
,, Received	1,169	15	4
Housekeeping Expenses	1,268	8	9
Trade Expenses	5,462	15	6
Sundry Debtors	4,572	6	4
,, Creditors	4,568	17	7

Stock, 31st December, £9,871 13s. 8d.

Dr. **TRADING AND PROFIT AND LOSS ACCOUNTS—For the Year Ended 31st December, 19..** *Cr.*

	A Dept.			B Dept.			Total				A Dept.			B Dept.			Total		
	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.
To Stock, 1st January	37,418	10	5	7,672	14	5	45,091	4	10	By Sales	89,527	16	6	47,732	17	6	137,260	14	–
„ Purchases	65,158	9	2	38,516	3	10	103,674	13	–	„ Stock, 31st December	35,463	15	7	9,871	13	8	45,335	9	3
„ Balance (Gross Profit)	22,414	12	6	11,415	12	11	33,830	5	5										
	£124,991	12	1	£57,604	11	2	£182,596	3	3		£124,991	12	1	£57,604	11	2	£182,596	3	3
To Trade Expenses	12,107	13	4	5,462	15	6	17,570	8	10	By Gross Profit b/d	22,414	12	6	11,415	12	11	33,830	5	5
„ Housekeeping Expenses	1,975	10	10	1,268	8	9	3,243	19	7	„ Discounts Received	2,067	13	8	1,169	15	4	3,237	9	–
„ Discounts Allowed	2,517	6	2	1,743	2	8	4,260	8	10										
„ Balance (departmental profits)	7,881	15	10	4,111	1	4	11,992	17	2										
	£24,482	6	2	£12,585	8	3	£37,067	14	5		£24,482	6	2	£12,585	8	3	£37,067	14	5

Dr. **GENERAL PROFIT AND LOSS ACCOUNT—For the Year Ending 31st December, 19..** *Cr.*

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Interest on Capital—							By Departmental Profits—						
X: 5% £25,971 5s. 8d.	1,298	11	3				"A" Dept.	7,881	15	10			
Y: 5% £18,432 10s. 7d.	921	12	6				"B" Dept.	4,111	1	4			
Z: 5% £15,617 3s. 10d.	780	17	2								11,992	17	2
				3,001	–	11							
„ Balance to Capital A/cs—													
X: $\frac{1}{3}$	2,997	5	5										
Y: $\frac{1}{3}$	2,997	5	5										
Z: $\frac{1}{3}$	2,997	5	5										
				8,991	16	3							
				11,992	17	2					11,992	17	2

Percentage of Gross Profit on Turnover: "A" Dept., 25·04; "B" Dept., 23·92 (22415 × 100 ÷ 89528 and 11416 × 100 ÷ 47733).
„ „ Net „ "A" Dept., 8·80; "B" Dept., 8·61 (7882 × 100 ÷ 89528 and 4111 × 100 ÷ 47733).

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Liabilities	£	s.	d.	£	s.	d.
Sundry Creditors—						
"A" Dept.	6,162	19	2			
"B" Dept.	4,568	17	7			
				10,731	16	9
Cash Creditor				1,500	–	–
Capital Accounts—						
X, 1st Jan.	25,971	5	8			
Add Interest	1,298	11	3			
„ Share of Profit	2,997	5	5			
	30,267	2	4			
Less Drawings	2,500	–	–			
				27,767	2	4
Y, 1st Jan.	18,432	10	7			
Add Interest	921	12	6			
„ Share of Profit	2,997	5	5			
	22,351	8	6			
Less Drawings	1,750	–	–			
				20,601	8	6
Z, 1st Jan.	15,617	3	10			
Add Interest	780	17	2			
„ Share of Profit	2,997	5	5			
	19,395	6	5			
Less Drawings	1,540	–	–			
				17,855	6	5
				78,455	14	–

Assets	£	s.	d.	£	s.	d.
Cash at Bank	2,029	14	9			
Cash in hand	620	15	5			
				2,650	10	2
Sundry Debtors—						
"A" Dept.	16,703	12	5			
"B" Dept.	4,572	6	4			
				21,275	18	9
Stock—						
"A" Dept.	35,463	15	7			
"B" Dept.	9,871	13	8			
				45,335	9	3
Fixtures and Fittings—						
"A" Dept.	4,726	10	5			
"B" Dept.	3,841	9	11			
				8,568	–	4
Horses and Carts				625	15	6
				78,455	14	–

2. Allocation of Expenses according to Floor Space Occupied.

Example. Messrs. Reed and Stevens commenced a retail cash business on 1st July with a stock of goods divided as follows: No. 1 Dept., £326 15s. 11d.; No. 2 Dept., £458 9s. 3d.; No. 3 Dept., £426 17s. 11d.; No. 4 Dept., £501 10s. 5d.; No. 5 Dept., £673 4s. 8d. They also had Cash, £552 9s. 4d.; Fixtures and Fittings, £560 12s. 6d.; and equal amounts of Capital.

On 31st December, the summary of the Cash Book for the half-year was as follows—

	£	s.	d.		£	s.	d.
To Sales—				By Purchases—			
No. 1 Dept. . .	1,256	3	11	No. 1 Dept. . .	896	4	3
No. 2 " . .	1,578	7	2	No. 2 " . .	792	10	6
No. 3 " . .	1,156	16	5	No. 3 " . .	814	3	7
No. 4 " . .	1,237	10	6	No. 4 " . .	516	16	6
No. 5 " . .	2,178	15	7	No. 5 " . .	1,703	2	8
				By General Expenses	720	15	–
				" Drawings—			
				Reed . .	250	–	–
				Stevens . .	250	–	–

The following purchases are unpaid on 31st December: No. 1 Dept., £320 19s. 2d.; No. 2 Dept., £625 7s. 8d.; No. 3 Dept., £159 1s. 11d.; No. 4 Dept., £246 14s. 10d.; No. 5 Dept., £226 1s. 2d. One quarter's Rent, £120, is also outstanding. The Stocks on hand at the same date are: No. 1 Dept., £516 10s. 2d.; No. 2 Dept., £617 3s. 4d.; No. 3 Dept., £598 16s. 8d.; No. 4 Dept., £373 11s. 7d.; No. 5 Dept., £816 17s. 2d.

Draw up Departmental Trading Accounts (see page 282), adding to the Expenses 20 per cent per annum for Depreciation of Fixtures. Divide the Expenses thus: No. 1 Dept., $\frac{6}{45}$ths; No. 2 Dept., $\frac{7}{45}$ths; No. 3 Dept., $\frac{8}{45}$ths; No. 4 Dept., $\frac{11}{45}$ths; No. 5 Dept., $\frac{13}{45}$ths. Draw up also a Profit and Loss Account and Balance Sheet, allowing Interest on Capital at 5 per cent per annum, and dividing profits equally.

PROFIT AND LOSS ACCOUNT

Dr. FOR THE HALF-YEAR ENDED 31ST DECEMBER, 19.. *Cr.*

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Interest on Capital—							By Trading A/c (departmental profits)—						
Reed, 2½% £1,750	43	15	–				No. 1 Dept. . .	129	1	10			
Stevens, 2½% £1,750	43	15	–				No. 2 Dept. . .	179	13	–			
				87	10	–	No. 3 Dept. . .	176	2	5			
" Balance (net profit)—							No. 4 Dept. . .	126	15	11			
Reed, Capital A/c,	329	2	11				No. 5 Dept. . .	134	2	8			
Stevens, " "	329	2	11								745	15	10
				658	5	10							
				£745	15	10					£745	15	10

DEPARTMENTAL

Dr. — For the Half-year

	No. 1 Dept.			No. 2 Dept.			No. 3 Dept.			No. 4 Dept.			No. 5 Dept.			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
To Stock, 1st July .	326	15	11	458	9	3	426	17	11	501	10	5	673	4	8	2,386	18	2
" Purchases .	1,217	3	5	1,417	18	2	973	5	6	763	11	4	1,929	3	10	6,301	2	3
" Expenses .	99	12	11	139	10	1	179	7	3	219	4	5	259	1	7	896	16	3
" Balance (departmental profits) .	129	1	10	179	13	–	176	2	5	126	15	11	134	2	8	745	15	10
	£1,772	14	1	£2,195	10	6	£1,755	13	1	£1,611	2	1	£2,995	12	9	10,330	12	6

Left-hand side]

TRADING ACCOUNTS

Ended 31st December, 19.. — Cr.

	No. 1 Dept.			No. 2 Dept.			No. 3 Dept.			No. 4 Dept.			No. 5 Dept.			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
By Sales . .	1,256	3	11	1,578	7	2	1,156	16	5	1,237	10	6	2,178	15	7	7,407	13	7
" Stock, 31st Dec. .	516	10	2	617	3	4	598	16	8	373	11	7	816	17	2	2,922	18	11
	£1,772	14	1	£2,195	10	6	£1,755	13	1	£1,611	2	1	£2,995	12	9	10,330	12	6

Right-hand side]

BALANCE SHEET as at 31st December, 19..

Liabilities	£	s.	d.	£	s.	d.	*Assets*	£	s.	d.	£	s.	d.
Creditors . .				1,578	4	9	Cash . . .				2,016	10	5
Outstanding Rent .				120	–	–	Stock—						
Capital A/cs—							No. 1 Dept. .	516	10	2			
Reed, 1st July .	1,750	–	–				No. 2 Dept. .	617	3	4			
Add Interest .	43	15	–				No. 3 Dept. .	598	16	8			
" Share of Profit	329	2	11				No. 4 Dept. .	373	11	7			
							No. 5 Dept. .	816	17	2			
	2,122	17	11								2,922	18	11
Less Drawings .	250	–	–				Fixtures and Fittings	560	12	6			
				1,872	17	11	*Less* Depreciation	56	1	3			
Stevens, 1st July .	1,750	–	–								504	11	3
Add Interest .	43	15	–										
" Share of Profit	329	2	11										
	2,122	17	11										
Less Drawings .	250	–	–										
				1,872	17	11							
				£5,444	–	7					£5,444	–	7

NOTE 1. The Original Capital is arrived at as follows: Stock, £2,386 18s. 2d. + Cash £552 9s. 4d. + Fixtures £560 12s. 6d. = £3,500 = £1,750 each partner.

NOTE 2. The Expenses are arrived at thus: Amount paid £720 15s. + Outstanding Rent £120 + Depreciation of Fixtures (half-year) £56 1s. 3d. = £896 16s. 3d.

NOTE 3. The final Cash balance is obtained as follows: Balance 1st July £552 9s. 4d. + Receipts £7,407 13s. 7d. - Payments £5,943 12s. 6d. = £2,016 10s. 5d.

NOTE 4. The Creditors are composed of the amounts owing for the unpaid Purchases of the different departments at 31st December, which when totalled amount to £1,578 4s. 9d.

3. Allocation of Expenses according to Turnover.

Example. From the following particulars prepare Departmental Trading and Profit and Loss Accounts for the year ended 31st December, 19.., apportioning the expenses between the departments in proportion to their respective turnovers—

	£	s.	d.
Stock (Raw Materials and Finished Goods)—			
A Dept., 1st January	7,954	18	11
B " "	6,987	12	10
Purchases (Raw Materials), A Dept.	19,846	15	3
" " " B "	14,895	17	11
Sales A Dept.	48,994	2	7
" B "	32,662	14	11
Exhibition Expenses	1,915	16	8
Wages A Dept.	3,987	14	10
" B "	1,989	19	9
Travellers' Commission and Expenses	5,376	17	6
Rent, Rates, and Taxes	987	12	6
Furniture and Fixtures	1,275	–	–
Salaries	3,579	11	8
Working Plant and Utensils	55,595	–	–
Insurance (£35 of this is prepaid)	808	10	5
Bad Debts Reserve, 1st January	748	10	7
Horses, Harness, Motor Vans and Vehicles	7,987	1	8
Directors' Fees	2,025	–	–
Sundry Debtors	22,953	10	–
Postage, Telegrams, and Bill Stamps	917	8	9
Difference in Exchange (*Dr.* balance)	38	18	4
Sundry Expenses	2,796	4	7
Bad Debts	828	14	7
Stationery, Sample Books, and Catalogues (£345 of these are still in stock)	3,376	12	6
Debenture Interest	630	–	–
Discounts on Purchases	1,748	13	9
" " Sales	3,268	15	5
Stable and Motor Expenses	637	3	9

Depreciate Working Plant, etc., 10 per cent; Horses, Harness, Motor Vans, etc., 20 per cent; Furniture, 2½ per cent. Make a

Reserve of 5 per cent on Sundry Debtors, for Bad Debts. Stock of Raw Materials and Finished Goods on 31st December, 19.., was—

A Dept., £9,895 18s. 11d.; B Dept., £7,958 12s. 10d.

Decimalization of Money. Formidable as the above task of apportioning the expenses according to the turnovers appears, it is not nearly so when the proper way of setting about it is known. The proper way, in this case, is to decimalize *at sight* approximately. Numbers of senior students have not touched arithmetic for many years, and are, therefore, unacquainted with this modern process. So it is proposed to give a short explanation of it. The explanation will be strictly limited to what is necessary in order to understand the following worked solutions, as it is not the province of this work to teach arithmetic proper. To familiarize themselves with modern processes and up-to-date methods in commercial arithmetic, students cannot do better than procure a copy of *Pitman's Complete Mercantile Arithmetic.*

One shilling = $\frac{1}{20}$ of a £, or £0·05. One farthing = $\frac{1}{960}$ of a £, but for convenience of calculation, it is taken as $\frac{1}{1000}$ of a £, as ·001, or £0·001. This latter decimal gives rise to a slight inaccuracy in calculations. For example, 3d. = 12 farthings = ·012 (·001 × 12); but $\frac{3}{240} = \frac{1}{80}$ = ·0125, or ·013 approximately to three places of decimals. Again, 9d. = 36 farthings = ·036 (·001 × 36); but $\frac{9}{240} = \frac{3}{80}$ = ·0375, or ·038 approximately to three places of decimals. An adjustment has consequently to be made in order to obviate these errors.

Rule for Decimalizing Fractions of a £. (1) Multiply the pence by 4 to bring them to farthings, and add on any farthings in the sum; if the result is 12 or over, add on 1; if 36 or over, add on 2. Put down the unit figure of the result as the third place decimal, and carry the ten's figure.

(2) Multiply the shillings by 5, and add on the figure carried from the pence operation, and the result will be the first and second place decimals.

Remember, there must be *three* places of decimals whenever there are any pence in the sum to be decimalized, and, therefore, if the shillings and pence yield only two place decimals, a *nought* must be put in front of them.

Example 1. What decimal of a £ is 17s. 3¾d.? 3 × 4 + 3 = 15; 15 + 1 = 16, 6 and carry 1. 17 × 5 + 1 = 86. Ans. £·866.

Example 2. What decimal of a £ is 1s. 2½d.? 2 × 4 + 2 = 10, 0 and carry 1. 1 × 5 + 1 = 6. Ans. £0·060, *not* £0·60.

Application to Worked Example. The turnovers of the departments must be decimalized. "A" Dept = £48,994·129, "B" Dept. = £32,662·746, Total turnover = £81,656·875.

81656·875) 48994·129 (·6; and 81656·875)32662·746(·4

·6 = $\frac{6}{10}$ths = $\frac{3}{5}$ths; and ·4 = $\frac{4}{10}$ths = $\frac{2}{5}$ths.

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DECEMBER, 19.. **Cr**

	A Dept.			B Dept.			Total		
	£	s.	d.	£	s.	d.	£	s.	d.
To Stock, 1st January	7,954	18	11	6,987	12	10	14,942	11	9
„ Purchases	19,846	15	3	14,895	17	11	34,742	13	2
„ Wages	3,987	14	10	1,989	19	9	5,977	14	7
„ Balance (Gross Profit)	27,100	12	6	16,747	17	3	43,848	9	9
£	58,890	1	6	40,621	7	9	99,511	9	3
		$\frac{3}{5}$			$\frac{2}{5}$				
To Travellers' Commission and Expenses	3,226	2	6	2,150	15	–	5,376	17	6
„ Rent, Rates, and Taxes	592	11	6	395	1	–	987	12	6
„ Salaries	2,147	15	–	1,431	16	8	3,579	11	8
„ Insurance (£808 10s. 5d. – £35)	464	2	3	309	8	2	773	10	5
„ Directors' Fees	1,215	–	–	810	–	–	2,025	–	–
„ Postage, Telegrams and Bill Stamps	550	9	3	366	19	6	917	8	9
„ Exhibition Expenses	1,149	10	–	766	6	8	1,915	16	8
„ Sundry Expenses	1,677	14	9	1,118	9	10	2,796	4	7
„ Stationery and Samples (£3,376 12s. 6d. – £345)	1,818	19	6	1,212	13	–	3,031	12	6
„ Discounts on Sales	1,961	5	3	1,307	10	2	3,268	15	5
„ Stable and Motor Expenses	382	6	3	254	17	6	637	3	9
„ Debenture Interest	378	–	–	252	–	–	630	–	–
„ Difference in Exchange	23	7	–	15	11	4	38	18	4
„ Bad Debts	497	4	9	331	9	10	828	14	7
„ Bad Debts Reserve (£1,147 13s. 6d. – £748 10s. 7d.)	239	9	9	159	13	2	399	2	11
„ Depreciation—									
Working Plant, 10% £55,595	3,335	14	–	2,223	16	–	5,559	10	–
Horses, Motors, etc., 20% £7,987 1s. 8d.	958	9	–	638	19	4	1,597	8	4
Furniture, 2½% £1,275	19	2	6	12	15	–	31	17	6
„ Balance (Net Profit)	7,512	13	6	3,689	4	7	11,201	18	1
£	28,149	16	9	17,447	6	9	45,597	3	6

	A Dept.			B Dept			Total		
	£	s.	d.	£	s.	d.	£	s.	d.
By Sales	48,994	2	7	32,662	14	11	81,656	17	6
„ Stock, 31st December	9,895	18	11	7,958	12	10	17,854	11	9
£	58,890	1	6	40,621	7	9	99,511	9	3
By Balance (Gross Profit)	27,100	12	6	16,747	17	3	43,848	9	9
„ Discounts on Purchases	1,049	4	3	699	9	6	1,748	13	9
£	28,149	16	9	17,447	6	9	45,597	3	6

Note—
"A" Dept. = $\frac{3}{5}$ or 60%
"B" Dept. = $\frac{2}{5}$ or 40%

4. Allocation of Expenses according to Number of Articles Sold.

Example. The Toilet Requisites Co. manufacture two specialities, namely, "Venus" Soap and "Hebe" Scent. From the following particulars draw up the Company's Trading and Profit and Loss Accounts for the year ending 30th June—

	£	s.	d.
Stocks of Raw Materials, Soap (1st July)	625	15	6
,, ,, ,, ,, (30th June)	826	4	10
,, ,, ,, Scent (1st July)	234	13	10
,, ,, ,, ,, (30th June)	275	6	9
,, Manufactured Soap (1st July)	537	3	11
,, ,, ,, (30th June)	872	3	5
,, ,, Scent (1st July)	216	17	5
,, ,, ,, (30th June)	266	10	8
,, Labels, Boxes, Bottles, etc., Soap 1st July)	135	9	4
,, ,, ,, ,, ,, (30th June)	207	8	9
,, ,, ,, ,, Scent (1st July)	172	6	9
,, ,, ,, ,, ,, (30th June)	135	4	6
Purchases of Raw Materials, Soap	516	12	8
,, ,, ,, Scent	407	10	2
,, Labels, Boxes, Bottles, etc., Soap	323	14	5
,, ,, ,, ,, Scent	243	15	6
Wages, Soap Dept.	523	8	7
,, Scent ,,	602	13	4
Manufacturing Expenses, Soap Dept.	56	13	8
,, ,, Scent ,,	198	7	8
Salaries	326	3	10
Advertising	3,619	14	6
Printing and Stationery	447	6	5
Postage	326	17	8
Rent, Rates, and Taxes	665	16	6
Sundry Expenses	279	4	3
Sales of Soap, 354,741 cakes @ 4½d. per cake.			
,, Scent, 61,638 bottles @ 1s. 3d. per bottle.			

The undivided expenses are to be apportioned between the two departments according to the *number* of cakes of soap or bottles of scent sold. (See following page.)

Apportionment of Expenses according to Number of Articles Sold. This appears to be a formidable task, and to a certain extent it is. Resort to decimals is necessary; other methods of calculation are quite out of the question, owing to the huge multiplication and division sums involved—

$$354{,}741 + 61{,}638 = 416{,}379$$

$$\frac{354{,}741}{416{,}379} = \cdot 851967; \text{ and } \frac{61{,}638}{416{,}379} = \cdot 148033$$

In order to obtain absolute accuracy it is necessary to take at least *six* decimal places. In approximating at the sixth decimal place, the student must be careful to see that the two decimal

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDED 30TH JUNE, 19.. *Cr.*

Dr.	Soap £	s.	d.	Scent £	s.	d.	Total £	s.	d.
To Stocks (1st July)—									
Raw Materials . .	625	15	6	234	13	10	860	9	4
Manufactured Goods .	537	8	11	216	17	5	754	1	4
Labels, Bottles, Boxes, etc.	135	9	4	172	6	9	307	16	1
„ Purchases, etc.—									
Raw Materials . .	516	12	8	407	10	2	924	2	10
Labels, Bottles, Boxes, etc.	323	14	5	243	15	6	567	9	11
„ Wages	523	8	7	602	13	4	1,126	1	11
„ Manufacturing Expenses	56	13	8	198	7	8	255	1	4
„ Balance (Gross Profit) .	5,838	6	10	2,453	4	9	8,291	11	7
	8,557	4	11	4,529	9	5	13,086	14	4
To Salaries . . .	277	18	1	48	5	9	326	3	10
„ Advertising . .	3,083	17	9	535	16	9	3,619	14	6
„ Printing and Stationery	381	2	1	66	4	4	447	6	5
„ Postage . . .	278	9	11	48	7	9	326	17	8
„ Rent, Rates, and Taxes	567	5	3	98	11	3	665	16	6
„ Sundry Expenses .	237	17	7	41	6	8	279	4	3
„ Balance (Net Profit) .	1,011	16	2	1,614	12	3	2,626	8	5
	5,838	6	10	2,453	4	9	8,291	11	7

Cr.	Soap £	s.	d.	Scent £	s.	d.	Total £	s.	d.
By Sales—									
354,741 Cakes Soap @ 4½d. . . .	6,651	7	11						
61,638 bottles Scent @ 1s. 3d. . .				3,852	7	6	10,503	15	5
„ Stocks—									
Raw Materials. .	826	4	10	275	6	9	1,101	11	7
Manufactured Goods	872	3	5	266	10	8	1,138	14	1
Labels, Boxes, Bottles etc. . . .	207	8	9	135	4	6	342	13	3
	8,557	4	11	4,529	9	5	13,086	14	4
By Gross Profits b/d .	5,838	6	10	2,453	4	9	8,291	11	7
	5,838	6	10	2,453	4	9	8,291	11	7

parts when added together equal unity; that they are neither *greater* nor *less*. Thus, ·148033 + ·851967 = 1. We could not take ·148034 and ·851967, or ·148033 and ·851966. Each of the amounts to be apportioned must be decimalized, and then multiplied by its appropriate decimal part of the total number of articles sold. For example, Salaries £326 3s. 10d. will be apportioned thus: £326·192 × ·851967 = £277 18s. 1d. for Soap Dept.; £326·192 × ·148033 = £48 5s. 9d. for Scent Dept.

Modern Methods of Calculation. In working this and similar examples the student should employ modern methods, which are easily acquired, and which undoubtedly effect a great saving of time. The striking contrast between the old and the modern method can be seen from the following, which exemplifies the working of the first multiplication sum—

	Old Method		Modern Method	
(*a*)	326·192	(*a*)	32·61920	
	·148033		1·48033	
	978576		32·619	20
	978576		13·047	68
	26095360		2·609	54
	1304768		9	78
	326192			98
	48·287180336		48·287	18
(*b*)	326·192	(*b*)	32·61920	
	·851967		8·51967	
	2283344		260·953	60
	1957152		16·309	60
	2935728		·326	19
	326192		·293	57
	1630960		19	57
	2609536		2	28
	277·904819664		277·904	81

The multiplier has first of all to be put into "standard form," and a corresponding adjustment made in the multiplicand. Then two extra places of decimals must be allowed for beyond the number required, which, in this case, is three, as this number will give us the £ s. d. result to the nearest farthing. A fuller explanation of this method will be found in the textbook we have previously mentioned (page 284).

Conversion of Decimals of a £ into Money. When multiplying as explained above, the result obtained will be pounds and decimal

fractions of a pound. The latter must be converted into shillings and pence *at sight.*

Rule. 1. Take answer to only four places of decimals. Approximate the third figure, that is, if the fourth figure is 5 or over, then make the third decimal figure 1 more.

2. Divide the first two figures by 5, and the result will be shillings.

3. Take the remainder (if any) and place the third decimal figure by the side of it; if the number is 13 or more, subtract 1; if 38 or more, subtract 2. Call the amount farthings, divide by 4, and the result will be pence and fractions of a penny.

Example 1. The result of the first multiplication, £326·192 × ·851967 = £277·9048 to four places of decimals. This equals £277·905 to three places approximately. 90 ÷ 5 = 18s.; 5 ÷ 4 = 1¼d. Ans. = £277 18s. 1¼d.

Example 2. The result of the second multiplication, £326·192 × ·148033 = £48·2871 to four places of decimals. This equals £48·287 to three places approximately. 28 ÷ 5 = 5s., and 3 over. Three together with 7 = 37; 37 − 2 = 35; 35 ÷ 4 = 8¾d. Ans. = £48 5s. 8¾d.

Separate Trading Accounts for each Department. Where the same item of expenditure or charge is common to each department, a tabular Trading and Profit and Loss Account is advantageous. But where different expenses and charges are incurred in the various departments, separate Trading Accounts must be prepared for each.

Example. From the following particulars of the Motor Car Engineering Works, Ltd., prepare departmental Trading Accounts and a general Profit and Loss Account for the year ended 31st December, 19..—

	£	s.	d.
Fixtures and Fittings	75	13	9
Loose Plant and Tools	225	12	7
Sundry Debtors	2,925	4	5
Cars bought for re-sale	12,500	–	–
Carriage on Cars sold	115	4	6
Management Expenses	510	13	8
Profit and Loss Account (undistributed balances, 1st Jan.)	650	5	10
Bad Debts	50	3	7
Petrol, Oil, etc., used	625	16	5
Charged to Customers for Hire of Cars	405	12	6
Sales of Motor Cars	14,750	–	–
Charged to Customers for Repairs to Cars	950	13	8
Accessories (Tyres, Tubes, etc.) used	2,350	4	10
Stock of Cars for Hiring Out	650	15	11
Stock of Accessories (Tyres, Tubes, Petrol, Oil, etc.) at end of current year	375	13	8
Expenses of Hire Cars	225	6	3
Sales of Petrol, Oil, etc.	975	14	10
Garage Rents received	90	9	8
Debenture Interest	125	–	–

	£	s.	d.
Repairs to Plant, etc.	27	6	6
Sales of Accessories (Tyres, Tubes, etc.)	2,735	15	3
Wages in Yard	156	10	8
Cost of Repairs to Cars (Wages, Materials, etc.) . . .	875	8	10
Bad Debts Reserve, 1st Jan.	120	–	–
Sundry Receipts (Washing Cars, Charging Batteries, etc.) .	166	10	5

The following adjustments are necessary: Bad Debts Reserve, 5 per cent Debtors; Depreciation: Loose Plant and Tools, 20 per cent; Fixtures and Fittings, 5 per cent; Cars for hire, 20 per cent; the manager is entitled to a Commission of 5 per cent of the net profit after charging this Commission.

MOTOR CARS TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19— *Cr.*

	£	s.	d.		£	s.	d.
To Purchases . . .	12,500	–	–	By Sales	14,750	–	–
„ Balance (Gross Profit) .	2,250	–	–				
	£14,750	–	–		£14,750	–	–

ACCESSORIES TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19— *Cr.*

	£	s.	d.		£	s.	d.
To Accessories used . .	2,350	4	10	By Sales of Accessories .	2,735	15	3
„ Petrol, Oil, etc., used .	625	16	5	„ Sales of Petrol, Oil, etc. .	975	14	10
„ Balance (Gross Profit) .	735	8	10				
	£3,711	10	1		£3,711	10	1

REPAIRS TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19— *Cr.*

	£	s.	d.		£	s.	d.
To Cost of Repairing Cars .	875	8	10	By Amounts Charged to Customers for Repairs to Cars	950	13	8
„ Balance (Gross Profit) .	75	4	10				
	£950	13	8		£950	13	8

HIRE CARS TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19— *Cr.*

	£	s.	d.		£	s.	d.
To Expense of Hire Cars .	225	6	3	By Charges to Customers for Hire of Cars . .	405	12	6
„ Depreciation of Hire Cars, 20%, £650 15s. 11d. .	130	3	2				
„ Balance (Gross Profit) .	50	3	1				
	£405	12	6		£405	12	6

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Carriage on Cars sold	115	4	6	By Trading Accounts (gross profits)—			
„ Management Expenses	510	13	8	Motor Cars	2,250	–	–
„ Bad Debts	50	3	7	Accessories	735	8	10
„ Repairs to Plant, etc.	27	6	6	Repairs	75	4	10
„ Debenture Interest	125	–	–	Hire Cars	50	3	1
„ Wages in Yard	156	10	8	„ Garage Rents	90	9	8
„ Bad Debts Reserve— 5% £2,925 4s. 5d. £146 5 3; Less Old Reserve 120 – –	26	5	3	„ Sundry Receipts	166	10	5
„ Depreciation— Loose Tools and Plant, 20% £225 12s. 7d.	45	2	6				
Fixtures, etc., 5% £75 13s. 9d.	3	15	8				
„ Manager's Commission, $\frac{5}{105}$ of £2,307 14s. 6d.	109	17	10				
„ Balance (Net Profit) to Appropriation A/c	2,197	16	8				
	£3,367	16	10		£3,367	16	10

Note re Manager's Commission. This is an item over which students constantly stumble. As the net profit is not yet known, the calculation must be made on the gross amount distributable, namely, $\frac{5}{105}$ of £2,307 14s. 6d.; which, as can be seen, is equal to $\frac{5}{100}$ of £2,197 16s. 8d.

QUESTIONS ON CHAPTER IX

1. Explain what is meant by " Departmental " Accounts.
2. Submit rulings of a Purchases Book suitable for a business having four departments.
3. Submit rulings of a Sales Book suitable for a business dealing in Tea, Coffee, Cocoa, and Sugar, each of which is a separate department.
4. Explain how the Ledger is affected by the keeping of " departmental " accounts. Give examples.
5. State briefly the advantages to be derived from a system of " departmental " accounts.
6. Are " departmental " accounts adopted with a view to ascertaining the *gross* or the *net* profit of each department?
7. What difficulties are there in the way of arriving at the " net " profit of each department ?
8. What is meant by the phrase " allocation of indirect expenses "?
9. What methods are in vogue with reference to the allocation of indirect expenses as between different departments? Which is considered to yield the fairest result?
10. When it is not possible to make a tabular Trading Account of several departments owing to the items being different in each, what procedure must be resorted to?

EXERCISE IX

1. A manufacturer, whose business is divided into the three departments of knitted mufflers, sailors' jerseys, and woollen gloves, adopts the following method of recording his sale transactions. When goods are dispatched, an Invoice is made out in an Invoice Carbon Copy Book, and sent to the purchaser. The Carbon Copy Book is then handed to the Ledger Clerk, who

writes the Ledger folio of the customer's account under the total of the Copy Invoice, and posts the item to the debit of the customer's account in the Ledger thus—

Invoice No.

April 1, 19.. To Goods, N.B. 0001 . . £59 12 10

Does this method appear to you to provide an adequate record for book-keeping purposes? If not, what would you suggest, and with what object? (*Royal Society of Arts.*)

2. Explain briefly and comment upon some system of Departmental Accounts with which you are familiar. (*National Union of Teachers.*)

3. The Needlebore Trading Co. manufactures and sells Linoleum and Carpets. From the following particulars prepare Trading and Profit and Loss Accounts, apportioning the undivided expenses in proportion to the turnovers of the departments—

	Linoleum Dept. £	*s.*	*d.*	*Carpet Dept.* £	*s.*	*d.*
Stocks (1st Jan.)	1,956	12	3	2,285	7	8
Purchases (net)	8,385	3	4	3,649	18	9
Wages	3,958	14	5	2,017	5	2
Manufacturing Expenses (including Depreciation of Plant)	2,075	5	6	1,474	3	6
Sales (net)	21,446	8	4	10,723	4	2
Stocks (31st Dec.)	1,754	9	6	2,071	17	6

Salaries, £3,068 10s. 7d.; Rent, Rates, and Taxes, £1,789 14s. 8d.; General Expenses, £916 18s. 9d.

4. Jeffrey, Slater and Gibbs are equal partners in a business, and are entitled to interest at 5 per cent per annum on their respective capitals before division of profits. All other adjustments have been made. From the following particulars for the year ended 31st December, draw up Trading and Profit and Loss Account, showing the gross and net profit of each department, and the percentage of gross and net profit on turnovers respectively—

	£	s.	d.
Cash at Bank	1,987	14	3
„ in hand	520	13	2
„ Creditor	2,000	–	–
Horses, Carts, etc.	752	10	8
Fixtures, Fittings, etc.—			
"A" Dept.	3,985	14	7
"B" „	4,106	12	9
Capital A/cs. (1st Jan.)—			
Jeffrey	23,516	10	2
Slater	16,379	4	8
Gibbs	13,176	16	7
Drawings Accounts—			
Jeffrey	2,750	–	–
Slater	2,000	–	–
Gibbs	1,650	–	–
"A" Dept.			
Stock, 1st Jan.	32,516	11	8
Purchases	61,987	16	7
Sales	81,082	13	11
Trade Expenses	9,027	14	3
Discounts Allowed	2,016	17	4
„ Received	1,856	4	4
Housekeeping Expenses	1,632	5	7
Sundry Creditors	4,438	15	10
„ Debtors	14,891	13	6
Stock, 31st Dec., £31,678 10s. 5d.			
"B" Dept.			
Stock, 1st Jan.	7,497	12	6
Purchases	36,518	14	9
Sales	46,916	19	8
Discounts Allowed	1,628	10	5
„ Received	1,534	5	6
Trade Expenses	4,159	10	11
Housekeeping Expenses	1,079	14	2
Sundry Debtors	4,178	18	5
„ Creditors	3,987	14	10
Stock, 31st Dec., £8,918 16s. 8d.			

5. Messrs. Davis & Smith commenced a retail cash business on 1st July with a Stock of goods divided as follows: No. 1 Dept., £373 10s. 2d.; No. 2 Dept., £478 11s. 9d.; No. 3 Dept., £402 19s. 6d.; No. 4 Dept., £537 15s. 6d.; No. 5 Dept., £667 13s. 3d. They also had Cash, £773 6s.; Fixtures and Fittings, £616 3s. 10d.; and equal amounts of Capital. On 31st December, the summary of their Cash Book for the half-year was as follows—

	£	s.	d.		£	s.	d.
To Sales—				By Purchases—			
No. 1 Dept. .	1,309	14	5	No. 1 Dept. .	773	10	6
No. 2 „ .	1,572	3	10	No. 2 „ .	770	9	5
				No. 3 „ .	852	12	4
No. 3 „ .	1,638	15	6	No. 4 „ .	917	13	8
No. 4 „ .	1,719	18	3	No. 5 „ .	1,262	11	10
No. 5 „ .	2,082	11	5	„ General Expenses.	816	15	11
				„ Drawings—			
				Davis . .	300	–	–
				Smith . .	300	–	–

On 31st December the following purchases were unpaid: No. 1 Dept., £353 14s. 5d.; No. 2 Dept., £539 10s. 8d.; No. 3 Dept., £446 13s. 9d.; No. 4 Dept., £355 9s. 7d.; No. 5 Dept., £340 16s. 5d. One quarter's Rent, £115, is also outstanding. Stocks on hand at this date are: No. 1 Dept., £427 15s. 4d.; No. 2 Dept., £531 9s. 5d.; No. 3 Dept., £457 8s. 4d.; No. 4 Dept., £567 17s. 11d.; No. 5 Dept., £757 14s. 4d. Draw up Departmental Trading Accounts, adding to the Expenses 20 per cent per annum for depreciation of Fixtures. Divide the Expenses as follows: No. 1 Dept., $\frac{3}{35}$ths; No. 2 Dept., $\frac{5}{35}$ths; No. 3 Dept., $\frac{7}{35}$ths; No. 4 Dept., $\frac{9}{35}$ths; No. 5 Dept, $\frac{11}{35}$ths. Draw up also a Profit and Loss Account and Balance Sheet as at 31st December, allowing interest on Capital at 5 per cent per annum, and dividing profits equally.

6. From the following particulars prepare Departmental Trading and Profit and Loss Accounts for the year ended 31st December, apportioning the expenses between the departments in proportion to their respective turnovers—

	£	s.	d.
Purchases Raw Materials) A Dept.	19,573	12	8
„ („) B „	14,846	3	6
Wages, A Dept.	3,846	5	10
„ B „	1,945	16	4
Rent, Rates, and Taxes	1,150	–	–
Insurance (£26 of this is prepaid)	367	10	6
Horses, Harness, Motor Vans and Vehicles . . .	7,500	–	–
Sundry Expenses	2,750	10	5
Discounts on Purchases	416	11	3
Stock (Raw Materials and Finished Goods)—			
A Dept. (1st Jan.)	7,261	4	2
B „ („)	6,946	12	8
Stable and Motor Expenses	560	5	5
Sundry Debtors	22,630	10	–
Sales, A Dept.	47,328	14	1
„ B „	31,552	9	5
Bad Debts	720	5	5
Postage, Telegrams, and Bill Stamps	746	3	4
Directors' Fees	1,500	–	–
Furniture and Fixtures	1,055	–	–
Working Plant and Utensils	43,703	3	4

	£	s.	d.
Exhibition Expenses	1,843	1	3
Bad Debts Reserve (1st Jan.)	720	10	6
Debenture Interest	500	–	–
Salaries	2,990	5	10
Discounts on Sales	945	8	4
Travellers' Commission and Expenses	4,500	10	5
Stationery, Sample Books, and Catalogues (£46 of these are still in stock)	1,572	4	3
Difference in Exchange (*Dr.* balance)	32	9	2

Depreciate Working Plant, etc., 10 per cent; Horses, Harness, Motor Vans, etc., 10 per cent; Furniture, 2½ per cent. Make a Reserve of 5 per cent on Sundry Debtors. Stock of Raw Materials and Finished Goods on 31st December was—

A Dept., £9,432 12s. 6d.; B Dept., £7,846 15s. 3d.

7. The Toilet Specialities Co. manufacture and sell two popular articles, "Excelsior" Hair Cream and "De Luxe" Tooth Powder respectively. From the following particulars draw up the Company's Trading and Profit and Loss Accounts for the year ending 30th June—

	£	s.	d.
Stock of Raw Materials, Hair Cream (1st July)	807	13	8
,, ,, ,, ,, ,, (30th June)	616	10	8
,, ,, ,, Tooth Powder (1st July)	316	4	5
,, ,, ,, ,, ,, (30th June)	361	14	4
Stock of Manufactured Hair Cream (1st July)	713	9	10
,, ,, ,, ,, (30th June)	543	17	6
,, ,, Tooth Powder (1st July)	307	18	9
,, ,, ,, ,, (30th June)	378	5	6
,, Bottles, Boxes, Labels, etc., Hair Cream (1st July)	307	10	8
,, ,, ,, ,, ,, ,, (30th June)	238	12	2
,, ,, ,, ,, Tooth Powder (1st July)	246	15	3
,, ,, ,, ,, ,, ,, (30th June)	247	15	7
Purchases of Raw Materials, Hair Cream	727	4	9
,, ,, ,, Tooth Powder	517	6	5
,, Bottles, Boxes, Labels, etc., Hair Cream	518	5	5
,, ,, ,, ,, Tooth Powder	323	14	6
Manufacturing Expenses, Hair Cream	268	10	7
,, ,, Tooth Powder	243	16	7
Wages, Hair Cream Dept.	707	14	3
,, Tooth Powder Dept.	734	7	8
Salaries	427	15	5
Advertising	5,896	3	10
Postage	506	7	8
Rent, Rates, and Taxes	722	16	9
Sundry Expenses	317	18	6

Sales of Hair Cream, 75,896 bottles @ 1s. 11d. bottle.
,, Tooth Powder, 498,878 boxes @ 5½d. box.

The undivided expenses are to be apportioned between the two departments according to the *number* of bottles of Hair Cream or boxes of Tooth Powder sold.

8. From the following particulars of the Luxworth Motor Car Works, Ltd., draw up departmental Trading Accounts, and a Profit and Loss Account, for the year ending 31st December, 19...

	£	s.	d.
Fixtures and Fittings	110	15	6
Loose Plant and Tools	378	10	9

	£	s.	d.
Sundry Debtors	3,026	15	8
Cars bought for re-sale	15,725	–	–
Carriage on Cars sold	129	16	6
Management Expenses	487	14	3
Profit and Loss Account—*Cr.* bal. 1st Jan.	706	4	8
Bad Debts	110	9	6
Petrol, Oil, etc., used	657	5	11
Charged to Customers for Hire of Cars	467	13	9
Sales of Motor Cars	18,950	–	–
Charged to Customers for Repairs to Cars	906	12	7
Accessories (Tyres, Tubes, etc.) used	2,418	15	6
Hire Cars	574	–	–
Stock of Accessories (Tyres, Petrol, Oil, etc.) as at 31st December, 19..	356	8	7
Expenses of Hire Cars	208	14	5
Sales of Petrol, Oil, etc.	1,026	13	4
Garage Rents Received	110	15	6
Debenture Interest	125	–	–
Repairs to Plant, etc.	29	13	2
Sales of Accessories (Tyres, Tubes, etc.)	2,907	14	8
Wages in Yard	148	10	3
Cost of Repairs to Cars (Wages, Materials, etc.)	816	16	5
Bad Debts Reserve, 1st January	150	–	–
Sundry Receipts (Washing Cars, Charging Batteries, etc.)	175	19	2

The following adjustments are necessary: Bad Debts Reserve, 5 per cent Debtors; Depreciation: Loose Tools, 20 per cent; Fixtures and Fittings, 5 per cent; Hire Cars, 20 per cent; the manager is entitled to a Commission of 5 per cent of the net profit after charging this commission.

9. Smith, Brown & Johnson are equal partners in a business, and are entitled to interest at 5 per cent on their respective Capitals before the division of profits. All other adjustments have been made, and from the following particulars you are requested to draw up Trading and Profit and Loss Accounts and Balance Sheet, showing the gross and net profits of each department, and also the percentages of gross and net profit on turnovers respectively—

	£	s.	d.
Capital Accounts—			
Smith (1st Jan.)	51,942	11	4
Brown („)	36,865	1	2
Johnson („)	31,234	7	8
Drawings Accounts—			
Smith	5,000	–	–
Brown	3,500	–	–
Johnson	3,080	–	–
Cash at Bank	4,059	9	6
„ in hand	1,241	10	10
Fixtures, Fittings, etc.—			
No. 1 Dept.	9,453	–	10
No. 2 „	7,682	19	10
Horses, Carts, etc.	1,251	11	–
Cash Creditor	3,000	–	–
No. 1 Dept.			
Sundry Debtors	33,407	4	10
„ Creditors	12,325	18	4
Sales	179,055	13	–
Stock (1st Jan.)	74,837	–	10
Purchases	130,316	18	4
Housekeeping Expenses	3,951	1	8
Discounts Allowed	5,034	12	4
„ Received	4,135	7	4
Trade Expenses	24,215	6	8
Stock, 31st Dec., £70,927 11s. 2d.			
No. 2 Dept.			
Sundry Debtors	9,144	12	8
„ Creditors	9,137	15	2
Sales	95,465	15	–
Stock (1st Jan.)	15,345	8	10
Purchases	77,032	7	8
Housekeeping Expenses	2,536	17	6
Discounts Allowed	3,486	5	4
„ Received	2,339	10	8
Trade Expenses	10,925	11	–
Stock, 31st Dec., £19,743 7s. 4d.			

10. Messrs. Hammond & Nelson commenced a retail cash business on 1st July with a Stock of Goods divided as follows: A Dept., £653 11s. 10d.; B Dept., £916 18s. 6d.; C Dept., £853 15s. 10d.; D Dept., £1,003 0s. 10d.; E Dept., £1,346 9s. 4d. They also had Fixtures and Fittings, £1,121 5s.; equal amounts of Capital; and Cash, £1,104 18s. 8d.

The following was the summary of their Cash Book for the half-year ended 31st December—

	£	s.	d.		£	s.	d.
To Sales—				By Purchases—			
A Dept. . .	2,512	7	10	A Dept. . .	1,792	8	6
B „ . .	3,156	14	4	B „ . .	1,585	1	–
C „ . .	2,313	12	10	C „ . .	1,628	7	2
D „ . .	2,475	1	–	D „ . .	1,033	13	–
E „ . .	4,357	11	2	E „ . .	3,406	5	4
				„ General Expenses	1,441	10	–
				„ Drawings—			
				Hammond .	500	–	–
				Nelson . .	500	–	–

The following purchases are unpaid on 31st December: A Dept., £641 18s. 4d.; B Dept., £1,250 15s. 4d.; C Dept., £318 3s. 10d.; D Dept., £493 9s. 8d.; E Dept., £452 2s. 4d. One quarter's Rent, £240, is also outstanding. The Stocks on hand at 31st December are: A Dept., £1,033 0s. 4d.; B Dept., £1,234 6s. 8d.; C Dept., £1,197 13s. 4d.; D Dept., £747 3s. 2d.; E Dept., £1,633 14s. 4d.

Draw up Departmental Trading Accounts, adding to the Expenses 20 per cent per annum for Depreciation of Fixtures. Divide the Expenses thus; A Dept., $\frac{1}{9}$th; B Dept., $\frac{7}{45}$ths; C Dept., $\frac{1}{5}$th; D Dept., $\frac{11}{45}$ths; E Dept, $\frac{13}{45}$ths. Draw up also a Profit and Loss Account, and Balance Sheet, allowing Interest on Capital at 5 per cent per annum, and dividing profits equally.

11. From the following particulars prepare Departmental Trading and Profit and Loss Accounts for the year ended 31st December, apportioning the expenses between the two departments in proportion to their respective turnovers—

	£	s.	d.
Stock (Raw Materials and Finished Goods)—			
X Dept. (1st Jan.)	15,909	17	10
Y „ („)	13,975	5	8
Purchases (Raw Materials), X Dept.	39,693	10	6
„ („ „), Y „	29,791	15	10
Sales, X Dept..	97,988	5	2
„ Y „	65,325	9	10
Exhibition Expenses	3,831	13	4
Wages, X Dept.	7,975	9	8
„ Y „	3,979	19	6
Travellers' Commission and Expenses	10,753	15	–
Rent, Rates, and Taxes	1,975	5	–
Fixtures and Fittings	2,550	–	–
Salaries	7,159	3	4
Working Plant and Utensils	111,190	–	–
Insurance (£70 of this is prepaid)	1,617	–	10
Bad Debts Reserve, 1st Jan.	1,497	1	2
Horses, Harness, Motor Vans and Vehicles	15,974	3	4
Directors' Fees	4,050	–	–
Sundry Debtors	45,907	–	–
Postage, Telegrams, and Bill Stamps	1,834	17	6
Difference in Exchange (*Dr.* balance) . . .	77	16	8

	£	s.	d.
Sundry Expenses	5,592	9	2
Bad Debts	1,657	9	2
Stationery, Sample Books, and Catalogues (£690 of these are still in stock)	6,753	5	–
Debenture Interest	1,260	–	–
Discounts on Purchases	3,497	7	6
,, on Sales	6,537	10	10
Stable and Motor Expenses	1,274	7	6

Depreciate Working Plant 10 per cent; Horses, Harness, etc., 20 per cent; Furniture, 2½ per cent. Make a Reserve of 5 per cent on Sundry Debtors. Stock of Raw Materials and Finished Goods on 31st December was—

X Dept., £19,791 17s. 10d.; Y Dept., £15,917 5s. 8d.

12. The Table Delicacies Co. manufacture and sell two specialities, namely, "Tip Top" Fish Paste and "A 1" Sauce. From the following particulars draw up the Company's Trading and Profit and Loss Accounts for the year ended 30th June—

	£	s.	d.
Stocks of Raw Materials—			
Fish Paste (1st July)	1,251	11	–
,, ,, (30th June)	1,652	9	8
Sauce (1st July)	469	7	8
,, (30th June)	550	13	6
Stocks of Manufactured Fish Paste (1st July)	1,074	7	10
,, ,, ,, ,, (30th June)	1,744	6	10
,, ,, Sauce (1st July)	433	14	10
,, ,, ,, (30th June)	533	1	4
,, Bottles, Pots, Labels, etc., Paste (1st July)	270	18	8
,, ,, ,, ,, ,, (30th June)	414	17	6
,, ,, ,, ,, Sauce (1st July)	344	13	6
,, ,, ,, ,, ,, (30th June)	270	9	–
Purchases of Raw Materials, Fish Paste	1,033	5	4
,, ,, ,, Sauce	815	–	4
,, Bottles, Pots, Labels, etc., Paste	647	8	10
,, ,, ,, ,, Sauce	487	11	–
Wages, Fish Paste Dept.	1,046	17	2
,, Sauce Dept.	1,205	6	8
Manufacturing Expenses, Paste Dept.	113	7	4
,, ,, Sauce ,,	396	15	4
Salaries	652	7	8
Advertising	7,239	9	–
Printing and Stationery	894	12	10
Carriage on Sales	653	15	4
Rent, Rates, and Taxes	1,331	13	–
Sundry Expenses	558	8	6

Sales of Fish Paste, 709,482 pots @ 4½d. per pot.
Sauce, 123,276 bottles @ 1s. 3d. per bottle.

The undivided expenses are to be apportioned between the two departments according to the *number* of pots of Fish Paste or bottles of Sauce sold.

13. From the following particulars of the "Stablemere" Motor Car Works, Ltd., prepare departmental Trading Accounts and a General Profit and Loss Account for the year ended 31st December—

	£	s.	d.
Fixtures and Fittings	151	7	6
Loose Plant and Tools	451	5	2

	£	s.	d.
Sundry Debtors	5,850	8	10
Cars bought for re-sale	25,000	–	–
Carriage on Cars sold	230	9	–
Management Expenses	1,021	7	4
Profit and Loss Account (*Cr.* bal. 1st Jan.)	1,300	11	8
Bad Debts	100	7	2
Petrol, Oil, etc., used	1,251	12	10
Charged to Customers for Hire of Cars	811	5	–
Sales of Motor Cars	29,500	–	–
Charged to Customers for Repairs to Cars	1,901	7	4
Accessories (Tyres, Tubes, etc.) used	4,700	9	8
Hire Cars	1,301	11	10
Stock of Accessories (Tyres, Tubes, Petrol, Oil, etc.) at end of current year	751	5	4
Expenses of Hire Cars	450	12	6
Sales of Petrol, Oil, etc.	1,951	9	8
Garage Rents Received	180	19	4
Debenture Interest	250	–	–
Repairs to Plant, etc.	54	13	–
Sales of Accessories (Tyres, Tubes, etc.)	5,471	10	6
Wages in Yard	313	1	4
Cost of Repairs to Cars (Wages, Materials, etc.)	1,750	17	8
Bad Debts Reserve (1st Jan.)	240	–	–
Sundry Receipts (Washing Cars, Charging Batteries, etc.)	333	–	10

The following adjustments are necessary: Bad Debts Reserve, 5 per cent; Debtors; Depreciation: Loose Plant and Tools, 20 per cent; Fixtures, etc., 5 per cent; Hire Cars, 20 per cent; the manager is entitled to a Commission of 5 per cent of the net profit after charging this commission.

14. From the following Trial Balance of T. Thompson, Pawnbroker, prepare Departmental Trading Account and Profit and Loss Account for the year ended 31st December, and Balance Sheet as at that date—

Trial Balance	*Dr.* £	s.	d.	*Cr.* £	s.	d.
Fixtures and Fittings	627	14	2			
Stocks (1st Jan.)—						
Pledged Goods (at amount of Advances thereon)	5,127	2	11			
Goods for Re-sale (at cost)	2,065	10	5			
Capital Account (1st Jan.)				7,000	15	5
Drawings Account	350	–	–			
Pledged Goods Advances Account	13,720	14	6			
,, ,, Redeemed Account				13,015	12	9
,, ,, Interest Account				1,050	6	10
Sale of Tickets				157	10	3
Sales				2,369	15	7
Wages and Salaries	405	10	3			
Sundry Creditors				339	13	6
Rent, Rates, and Taxes	216	9	10			
Purchases (for re-sale)	657	16	8			
Sundry Expenses	238	12	6			
Cash in hand	158	5	4			
,, at Bank	365	17	9			
	£23,933	14	4	£23,933	14	4

During the year, Unredeemed Pledges to the amount of £1,756 13s. 4d. (sum advanced thereon) have been transferred from the Pledged Goods Account to the Goods for Re-sale Account. The Stock at 31st December was: Pledged Goods (at amount of Advances thereon), £4,215 15s. 9d.; Goods for Re-sale (at cost), £2,630 14s. 8d. Depreciate Fixtures at 5 per cent, and allow Interest on Capital at 5 per cent.

15. G. Greasley is in business as an Engine Dealer and Repairer. From the following particulars prepare Departmental Trading Accounts and Profit and Loss Account for the year ended 31st December—

	£	s.	d.
Capital Account (1st Jan.)	5,165	14	9
Stock, Engine Dept. (1st Jan.)	3,316	11	2
„ Repairs Dept. (1st Jan.)	1,164	13	7
Purchases, Engine Dept.	8,507	10	6
„ Repairs „	5,275	11	8
Wages, Engine Dept.	2,657	13	4
„ Repairs „	3,608	15	5
Working Expenses, Engine Dept.	1,056	5	8
„ „ Repairs „	1,516	4	10
Amounts charged to Customers, Repairs Dept.	12,408	11	10
Sales, Engine Dept.	14,616	16	9
Bad Debts	47	15	4
Salaries	617	2	3
Rent, Rates, and Taxes	426	13	4
Gas and Electric Light	57	14	5
Insurance (Fire and Workmen's Compensation)	158	5	6
Office Furniture	227	13	10
„ Expenses	146	8	9
Discounts—*Credit* balance	41	17	8
Bad Debts Reserve (1st Jan.)	60	–	–

The Stocks on hand at 31st December were; Engine Dept., £3,450 16s. 4d.; Repairs Dept., £1,265 19s. 5d. Reserve £75 for Bad Debts. Allow Interest on Capital at 5 per cent. Depreciate Office Furniture 5 per cent.

16. P. Philcree is in business, trading as the Engineering Supplies Co., for the manufacture and sale of engineering sundries. From the following particulars prepare Trading and Profit and Loss Accounts showing the gross and net trading profits of each department, and also a General Profit and Loss Account showing the net profit—

	£	s.	d.
Stock, Works Dept. (1st Jan.)	1,056	10	6
„ Retail „ („)	6,573	14	8
Purchases, Works Dept.	8,743	5	10
„ Retail „	32,656	18	9
Carriage, Works Dept.	620	13	4
„ Retail „	1,456	7	8
Wages, Works Dept.	7,426	19	5
„ Retail „	914	10	3
Sales, Works Dept.	21,486	15	2
„ Retail „	40,915	14	7
Machinery, Plant, and Tools (1st Jan.)	10,897	14	3
Office Salaries, Works Dept.	526	15	6
„ „ Retail „	507	6	6
„ Expenses, Works Dept.	206	4	11
„ „ Retail „	572	15	10
Rent, Rates, and Taxes, Works Dept.	463	17	8

	£	s.	d.
Rent, Rates, and Taxes, Retail Dept.	325	10	6
Bad Debts Reserve, Works Dept. (1st Jan.) . . .	225	10	–
„ „ „ Retail „ („) . . .	225	10	–
„ „ Works Dept.	112	15	6
„ „ Retail „	116	16	11
Salary (P. Philcree)	1,000	–	–
Bank Interest Received	76	13	4
„ Charges	29	5	8
Income Tax Paid	416	14	2
Interest on Investments, *less tax*	162	13	6

The Stocks on hand at 31st December were: Works Dept., £975 13s. 4d.; Retail Dept., £7,520 18s. 10d. The Machinery, Plant, and Tools were valued at £10,946 12s. 8d. Make a Bad Debt Reserve of £230 for each department, and apportion Philcree's salary equally between the two departments.

REVISION EXERCISE IX

1. Explain briefly the meaning of Book-keeping by Double Entry, and why preference should be given to that system over others. Explain also the difference between Personal and Impersonal Accounts. (*London Chamber of Commerce.*)

2. Is there any difference between a Trading Account and a Profit and Loss Account, and from what accounts in the Ledger are they prepared? (*London Chamber of Commerce.*)

3. Prepare a form of Cash Book suitable for a large public institution, such as a County Asylum or Hydropathic Institution, where the rule is imperative to pay everything by cheque, and pay into the Bank all receipts intact, and briefly state your reasons for suggesting the adoption of such a form of Cash Book. (*London Chamber of Commerce.*)

4. Robinson, on 31st August, buys from Tuck & Co. 150 tons of coal at 7s. 6d. a ton at the pit mouth, and pays for them at once by cheque, being allowed a discount for cash of 2½ per cent. He pays 1s. 3d. a ton for carriage by rail and 9d. a ton for cartage. He sells the coal to a Sheffield manufacturing Company at 12s. 6d. a ton on 14th September, and draws a bill at two months for the amount. The bill is dishonoured at maturity, but is immediately paid by the manufacturing Company upon demand being made to them. Draw the bill of exchange and make the entries necessary to record the above transactions in Robinson's books, and show what profit or loss Robinson made upon the deal after charging 10 per cent on the original cost of the coal for establishment expenses. (*London Chamber of Commerce.*)

5. In closing the books of Robert Sawyer you find the undermentioned items. How would you deal with these transactions when preparing the annual accounts for the year ended 31st December?

(1) Fire insurance premium (£50) paid on 30th June this year, covering the twelve months to 30th June next year.

(2) Salaries (£125) accrued due to A, B, and C, but not yet drawn by them.

(3) R. Robinson paid £100 in advance in full settlement for work which was being executed for him under a contract. The cost of the work completed up to 31st December amounted to £39, when it was estimated that half the contract had been completed.

(4) Patents accounts showed a debit balance of £557 7s. This amount consisted of Patent rights (six years to run) purchased for £550, and renewal fees for the current year, £7 7s.

(5) Three years ago Robert Sawyer bought a milling machine for £200, and depreciation, at the rate of 10 per cent upon the diminishing balance, has been written off each year; the same machine, however, can now be bought for £120 owing to improvements in manufacture. (*London Chamber of Commerce.*)

6. The following is an abbreviated Statement, presented to Subscribers and Friends by the Management of an important public Charitable Institution, and bearing an Auditor's certificate.

FINANCIAL STATEMENT, *1st January to 31st December*

	£	£
To Bankers' Balance	370	
„ Receipts, Donations, etc.	4,629	
„ "M" Building Fund	793	
„ £470 Consols sold	460	
„ Trust Funds—		
Receipts	8,828	
Dividends	2,559	
£2,449 Consols sold	2,418	
„ Dividend on Consols and Turkish 4%	741	
By Grants		4,740
„ Salaries and General Charges		1,677
„ £459 Consols bought		450
„ Trust Funds—		
Grants		2,715
£11,323 Consols bought		11,109
„ Bankers' Balance		107
	£20,798	£20,798

There is no other Account published, but at the foot of the Statement, and independent thereof, and without the signature of the Auditor, there is a Note stating that there are Investments amounting respectively to £100,588 10s. 7d. and £20,254 6s. 2d., and that there are unpaid Grants amounting to £12,595.

Give your opinion as to this form of Account, and having regard to the attacks occasionally made in the "Press" upon the Accounts as published from time to time by certain charitable societies, state very briefly in what way *you* would have presented the Accounts had you been acting as the Official Accountant to the Institution. (*London Chamber of Commerce.*)

7. Consigned Goods value £750 to A. Archer, of Sydney. Paid Freight £54, and Insurance £30. Received an Advance of £250 from A. Archer. Received Account Sales from A. Archer showing that part of the goods had realized gross £800, and that his expenses and commission amounted to £85. The Stock unsold was valued at £250. Received bill at 1 month from A. Archer for amount due.

Make the necessary Journal and Cash Book entries for the above transactions, and show the Consignment Account in the Ledger.

8. MILDRED & MERRYWEATHER

(a) TRIAL BALANCE, 31*st December*

	£	s.	d.	£	s.	d.
J. C. Mildred, Capital as at 1st July				8,653	14	8
W. F. Merryweather, Capital as at 1st July				5,610	3	7
Land and Buildings as at 1st July	6,300	–	–			
Machinery, Plant, and Utensils	6,250	8	2			
Office Furniture	130	–	–			
Executors of Henry Watson, Loan on Mortgage 4%				4,000	–	–
R. A. Merryweather, Bonus Account as at 1st July				329	10	–
J. C. Mildred, Drawing Account	378	4	10			
W. F. Merryweather, Drawing Account	229	3	1			
R. A. Merryweather, Drawing Account	141	6	7			
Materials Purchased	14,187	14	9			
Wages	4,544	6	8			
Office Salaries	189	11	3			
Travellers' Salaries	432	9	6			
Rates and Insurance	121	15	10			
Discount Allowed	1,064	14	2			
Repairs and Renewals of Machinery	248	3	1			
Sales				20,465	7	11
Royalty (on manufacturing process)	149	1	2			
Gas and Water Account	35	13	7			
Rent of Stabling let off				41	2	9
Travellers' Commission	123	4	2			
Bad Debt Account				138	9	1
Travelling Expenses	269	13	1			
Bank Charges	68	9	3			
Discount Received				387	6	8
Returns Inwards	143	5	7			
Creditors				1,250	10	–
Trade Expenses	179	10	5			
Trading Account—Stock of Materials, 1st July	3,611	17	6			
Debtors	2,700	2	11			
Bank				328	16	3
Petty Cash Balance	5	–	1			
Bills Payable				338	14	9
Interest Account	40	–	–			
	£41,543	15	8	£41,543	15	8

Stock of Materials, 31st December, £7,032 11s. 9d.

J. C. Mildred and W. F. Merryweather are partners, and divide profits and losses equally after being credited with interest on Capital at 5 per cent per annum.

R. A. Merryweather is the Factory Manager, and is entitled to a bonus of 15 per cent of the profit after allowing for all Interest. He is also entitled to Interest at 5 per cent per annum on the amount of his Bonus left in the business.

Interest on all drawings is ignored.

Land and Buildings Account, Depreciation, 1 per cent per annum.

Machinery, Plant, and Utensils Account include additions this half-year, £179 8s. 2d.; write off for Depreciation 10 per cent per annum on balance at 1st July.

Office Furniture Account. This Account has been regularly depreciated each half-year at 10 per cent per annum. This half-year it has also been reduced on 30th September by the sale of a Typewriter for £5, which was purchased on 30th June last year for £25; include the loss on this transaction with this half-year's depreciation.

Interest on Mortgage owing from 1st October (ignore Income Tax).

W. F. Merryweather requires £100 transferring from his Account to the credit of R. A. Merryweather as a present at Christmas.

Wages include £12 13s. 6d. paid to an injured workman, and recoverable from the Insurance Company.

Rates owing, £75. Insurance prepaid, £30.

Discount allowed should be shown in Trading Account as a deduction from Sales. Reserve 6¼ per cent of the Debtors.

Gas and Water. The note from the Corporation received 2nd February shows the gas for the previous half-year ending 31st December is £132 11s. 8d.; water for half-year ending 30th June next (payable in advance) is £33 6s. 8d. The Corporation allows 5 per cent discount on this note.

J. C. Mildred should be charged 10s. per week for the half-year for use of Stabling belonging to the business.

Bad Debt Account, Reserve, £200.

Discount received should be shown in Trading Account as a deduction from Materials purchased; Reserve 2½ per cent of Creditors.

Prepare a Trading Account showing the Gross Profit; the profit before charging Partners' Interest on Capital, and the net Profit.

Show the Balance Sheet, 31st December, and prepare copies of the Partners' Capital Accounts for the half-year.

(*b*) Referring to the previous question, state what percentage the following items in the Trading Account bears to the net Sales—

Materials consumed (including Royalty).
Wages.
Gross Profit.
Net Expenses before charging Partners' Interest.
Net Profit (after Bonus).

(*West Riding of Yorkshire.*)

CHAPTER X

PARTNERSHIP ACCOUNTS

Definition. By the Partnership Act, 1890, partnership is defined as " the relation which subsists between persons carrying on a business in common with a view of profit."

Relationships which are not Partnerships. The relation between members of any company or association which is—

(*a*) Registered as a company under the Companies Act, 1862 (now Companies Act, 1929), or any other Act of Parliament for the time being in force and relating to the registration of joint stock companies; or

(*b*) Formed or incorporated by or in pursuance of any other Act of Parliament or letters patent, or Royal Charter; or

(*c*) A company engaged in working mines within and subject to the jurisdiction of the Stannaries;

is not a partnership within the meaning of the Act.

What Constitutes a Partnership? In determining whether a partnership does or does not exist, regard must be had to the following rules—

(1) Joint tenancy, tenancy in common, joint property, common property or part ownership does not of itself create a partnership as to anything so held or owned, whether the tenants or owners do or do not share any profits made by the use thereof.

(2) The sharing of gross returns does not of itself create a partnership, whether the persons sharing such returns have or have not a joint or common right or interest in any property from which or from the use of which the returns are derived.

(3) The receipt by a person of a share of the profits of a business is prima facie evidence that he is a partner in the business, but the receipt of such a share, or of a payment contingent on or varying with the profits of a business, does not of itself make him a partner in the business; and in particular—

(*a*) The receipt by a person of a debt or other liquidated amount by instalments or otherwise out of the accruing profits of a business does not of itself make him a partner in the business or liable as such.

(*b*) A contract for the remuneration of a servant or agent of a person engaged in a business by a share of the profits of the business does not of itself make the servant or agent a partner in the business or liable as such.

(*c*) A person being the widow or child of a deceased partner, and receiving by way of annuity a portion of the profits made in the business in which the deceased person was a partner, is not by reason only of such receipt a partner in the business or liable as such.

(*d*) The advance of money by way of loan to a person engaged or about to engage in any business on a contract with that person that the lender shall receive a rate of interest varying with the profits, or shall receive a share of the profits arising from carrying on the business, does not of itself make the lender a partner with the person or persons carrying on the business or liable as such; provided that the contract is in writing, and signed by or on behalf of all the parties thereto.

(e) A person receiving by way of annuity or otherwise a portion of the profits of a business in consideration of the sale by him of the goodwill of the business is not by reason only of such receipt a partner in the business or liable as such.

Prohibition of Large Partnerships. No partnership consisting of more than twenty persons can be formed to carry on any business for gain without being registered as a company under the Companies Act, 1929. In the case of a banking business the number must not exceed ten.

Firm and Firm-Name. Persons who have entered into partnership with one another are, for the purposes of the Partnership Act, 1890, called collectively a firm, and the name under which their business is carried on is called the firm-name.

By the Registration of Business Names Act, 1916, every firm having a place of business in the United Kingdom, and carrying on business under a name *which does not consist of the true surnames of all the partners*, must be registered. Particulars must be furnished of the business name, general nature of the business, principal place of business; the present Christian name and surname, any former Christian name and surname, nationality, and if that nationality is not the nationality of origin, the nationality of origin, usual residence, and the other business occupation (if any), of each partner. The names of the partners must also appear on the notepaper, catalogues, showcards, etc., issued by the firm.

Difference between an Ordinary Partnership and a Joint Stock Company. The following points should specially be noted—

(1) The individuality of the members who form a company is entirely lost in the personality of the company itself, which is regarded in law as a separate and distinct entity. Thus, a member of a company may enter into contracts with the company itself in the same manner as any other individual.

(2) In a company, the creditors can only proceed against the property of the company in case of necessity, and, ordinarily, there is no remedy beyond the amount of the fixed capital, which is, in fact, the total amount of the property of the legal person. In a partnership, the creditors may not only proceed against the property of the partnership, but also against the private property of each individual partner.

(3) In a public company, shares may be transferred without the consent of the other members of the company, and without affecting its existence; this is not possible in a partnership.

(4) In the case of a limited company, the liability of each shareholder is limited to the amount unpaid on the shares which he holds. In a partnership each member is liable jointly for the whole of the debts of the firm.

(5) In a partnership the number of members must not exceed twenty, or, in the case of a banking company, ten. In a limited company there is no such limit, except that there must not be less than seven persons in a public company, nor less than two in a private one.

(6) In a partnership, each partner can take part in the management, and his actions are legally binding on the firm; but in a company, the rights of management are restricted to a special body of shareholders called directors.

(7) In a partnership, the rights of the members are regulated by the Deed of Partnership, and may be altered by mutual agreement. In a limited

company, the objects of the company are governed by the Memorandum of Association, which cannot be altered except by consent of the Court; and the powers of the directors are regulated by the Articles, which can only be altered by special resolution of the shareholders.

(8) The law prescribes an annual audit for a limited company, but not for a partnership.

(9) The capital of a private firm may be increased by additions and by profits, or decreased by withdrawals and losses, or altered by mutual agreement. The capital of a company is fixed by the Memorandum, is unaffected by trading profits or losses, and can only be increased or decreased in a special statutory manner.

Kinds of Partners. There are different kinds of partners, viz.—

Acting or Active Partner, one who actually takes part in the business; **Dormant or Sleeping Partner**, one who has capital in the business, but is not actually engaged in it; **Limited Partner**, one who is a partner under the Limited Partnership Act; **Quasi Partner**, one who has retired from active participation in the business, but has left his capital in it as a loan, receiving interest on it varying with the profits, or who (although not a partner) incurs liabilities as if he were a partner by reason of the fact that he holds himself out or allows himself to be represented as such.

Power of a Partner to Bind the Firm. Every partner is an agent of the firm and his other partners for the purpose of the business of the partnership; and the acts of every partner who does any act for carrying on in the usual way business of the kind carried on by the firm of which he is a member bind the firm and his partners, unless the partner so acting has in fact no authority to act for the firm in the particular matter, and the person with whom he is dealing either knows that he has no authority, or does not know or believe him to be a partner.

Partner using Credit of Firm for Private Purposes. Where one partner pledges the credit of the firm for a purpose apparently not connected with the firm's ordinary course of business, the firm is not bound, unless he is in fact specially authorized by the other partners.

Liability of Partners. Every partner in a firm is liable jointly with the other partners for all debts and obligations of the firm incurred while he is a partner; and after his death his estate is also severally liable in a due course of administration for such debts and obligations, so far as they remain unsatisfied, but subject to the prior payment of his separate debts.

Liability of Firm. (*a*) Where one partner acting within the scope of his apparent authority receives the money or property of a third person and misapplies it; and (*b*) where a firm in the course of its business receives money or property of a third person, and the money or property so received is misapplied by one or more of the partners while it is in the custody of the firm; the firm is liable to make good the loss.

Liabilities of Incoming and Outgoing Partners. By Section 17 of the Act—

(1) A person who is admitted as a partner into an existing firm does not thereby become liable to the creditors of the firm for anything done before he became a partner, unless it is quite clear from the agreement that he intended to make himself liable.

(2) A partner who retires from a firm does not thereby cease to be liable to outside parties for partnership debts or obligations incurred before his retirement.

(3) A retiring partner may be discharged from any existing liabilities, by an agreement to that effect between himself and the members of the firm as newly constituted and the creditors, and this agreement may be either express or inferred as a fact from the course of dealing between the creditors and the firm as newly constituted.

Variation of Terms of Partnership. The mutual rights and duties of partners, whether ascertained by agreement or defined by the Partnership Act, may be varied by the consent of all the partners, and such consent may be either express or inferred from a course of dealing.

Partnership Property. By Section 20 of the Act—

All property and rights and interests in property originally brought into the partnership stock or acquired, whether by purchase or otherwise, on account of the firm, or for the purposes and in the course of the partnership business, are called in this Act partnership property, and must be held and applied by the partners exclusively for the purposes of the partnership and in accordance with the partnership agreement.

Unless the contrary intention appears, property bought with money belonging to the firm is deemed to have been bought on account of the firm.

Rights and Duties of Partners. By Section 24 of the Act, the interests of partners in the partnership property, and their rights and duties in relation to the partnership shall be determined, subject to any agreement express or implied between the partners, by the following rules—

(1) All the partners are entitled to share equally in the capital and profits of the business, and must contribute equally towards the losses whether of capital or otherwise sustained by the firm.

(2) The firm must indemnify every partner in respect of payments made and personal liabilities incurred by him—

(*a*) in the ordinary and proper conduct of the business of the firm; or,

(*b*) in or about anything necessarily done for the preservation of the business or property of the firm.

(3) A partner making, for the purpose of the partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of 5 per cent per annum from the date of the payment or advance.

(4) A partner is not entitled, before the ascertainment of profits, to interest on the capital subscribed by him.

(5) Every partner may take part in the management of the partnership business.

(6) No partner shall be entitled to remuneration for acting in the partnership business.

(7) No person may be introduced as a partner without the consent of all existing partners.

(8) Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners, but no change may be made in the nature of the partnership business without the consent of all existing partners.

(9) The partnership books are to be kept at the place of business of the partnership (or the principal place, if there is more than one), and every partner may, when he thinks fit, have access to and inspect and copy any of them.

Expulsion of Partner. No majority of the partners can expel any partner unless a power to do so has been conferred by express agreement between the partners.

Duration of Partnership at Will. Where no fixed term has been agreed upon for the duration of the partnership, any partner may determine the partnership at any time on giving notice of his intention so to do to all the other partners. Where the partnership has originally been constituted by deed, a notice in writing, signed by the partner giving it, is sufficient.

Where a partnership entered into for a fixed term is continued after the term has expired, and without any express new agreement, the rights and duties of the partners remain the same as they were at the expiration of the term, so far as is consistent with the incidents of a partnership at will. A continuance of the business by the partners or such of them as habitually acted therein during the term, without any settlement or liquidation of the partnership affairs, is presumed to be a continuance of the partnership.

Duties of Partners towards the Firm. Partners are bound to render true accounts and full information of all things affecting the partnership to any partner or his legal representatives.

Every partner must account to the firm for any benefit derived by him without the consent of the other partners from any transaction concerning the partnership, or from any use by him of the partnership property, name, or business connection.

If a partner, without the consent of the other partners, carries on any business of the same nature as, and competing with, that of the firm, he must account for and pay over to the firm all profits made by him in that business.

Partnership Deed. There may be, and often are, "partnerships at will" without the existence of any deed or written agreement. Owing to the conflicting legal interpretations of the Partnership Act, however, a deed should be drawn up and the following matters dealt with specifically—

(1) The amount of capital each partner is to contribute, and whether the amount is to be fixed or not.

(2) How profits and losses, including Capital profits and losses, are to be shared.

(3) The amount each partner is to be allowed to draw.

(4) Whether interest is to be allowed on Capital and charged on Drawings, and at what rate.

(5) Whether drawings, profits and losses, and interest are to be dealt with in Separate Current Accounts, or merged finally into the Capital Accounts.

(6) Whether the balances of the partners' Current Accounts are to be charged or credited with interest, and at what rate.

(7) That a Profit and Loss Account and Balance Sheet be drawn up each year, and audited by a professional accountant; and that such Balance Sheets be signed by all the partners and be binding on them, unless a manifest error is discovered within six months afterwards.

(8) In the case of Policies of Survivorship Insurance being taken out, how the premiums are to be dealt with, and how the Policy Money is to be divided when received.

(9) The method of arriving at the amount of Goodwill in the case of the death or retirement of any of the partners.

(10) The method of arriving at the amount payable on the death or retirement of a partner—whether he is to be entitled to his capital, as per the last Balance Sheet, plus a higher rate of interest to date of death or retirement in lieu of profits, or whether fresh accounts are to be prepared up to date of death or retirement, and whether the partnership assets are to be re-valued for this purpose.

(11) That in the event of the death of a partner, his capital should remain in the business as a loan bearing interest, and be repayable by easy instalments, so as to prevent the business being crippled by a large withdrawal of funds.

Fixed Capital Accounts. In practice, it is usual for the amounts of the partners' capitals to be fixed by the partnership deed. The Capital Accounts, therefore, remain at the same figure during the partnership. Partners' salaries, profits, and interest on capital are not shown in the Capital Accounts but in separate Current or Drawings Accounts, the balances of which are carried to the Balance Sheet, and in some cases bear interest. A distinction is thus made and maintained between original capital and undrawn profits. The difference between the two methods can easily be seen from the example on page 310, which represents the liabilities side of a Balance Sheet drawn up both ways.

Partner's Advances. Any further sums of money advanced by a partner to the firm will be by way of *loan* rather than *capital*, inasmuch as partners' loans have priority of repayment over partners' capital in the event of a dissolution. The interest on such loans, unless paid in cash, should, therefore, be credited to the Partners' Loan Account or Current Account, and not to his Capital Account.

Partner's Salaries. Where some of the partners devote the whole of their time to the business while others do not, it is usual to allow the former a salary before ascertaining the net profit. The practice also obtains where there are junior partners who, having little or no capital in the firm and taking only a small share of the profits, would otherwise derive insufficient remuneration from the business for their services to it. The salary is sometimes drawn out in cash, and sometimes credited to the Partner's Capital Account, according to the agreement.

Interest on Capital. In order to adjust the rights of partners,

(1) FIXED CAPITAL METHOD.

Liabilities	£	s.	d.	£	s.	d.
Bills Payable				1,656	2	11
Sundry Creditors				3,074	3	10
Outstanding Expenses				85	16	9
Loan A/c, Potts				2,000	–	–
Current A/c, Potts—						
Share of Profit	1,376	9	10			
Interest on Capital	350	–	–			
Interest on Loan	100	–	–			
	1,826	9	10			
Less Drawings	1,550	–	–			
				276	9	10
Current A/c, Kemp—						
Share of Profit	864	3	11			
Interest on Capital	150	–	–			
	1,014	3	11			
Less Drawings	850	–	–			
				164	3	11
Capital Accounts—						
Potts	7,000	–	–			
Kemp	3,000	–	–			
				10,000	–	–
			£	17,256	17	3

(2) ALTERNATIVE METHOD.

Liabilities	£	s.	d.	£	s.	d.
Bills Payable				1,656	2	11
Sundry Creditors				3,074	3	10
Outstanding Expenses				85	16	9
Loan A/c, Potts	2,000	–	–			
Interest accrued	100	–	–			
				2,100	–	–
Capital Accounts—						
Potts, 1st Jan.	7,000	–	–			
Add Interest	350	–	–			
„ Share of Profit	1,376	9	10			
	8,726	9	10			
Less Drawings	1,550	–	–			
				7,176	9	10
Kemp, 1st Jan.	3,000	–	–			
Add Interest	150	–	–			
„ Share of Profit	864	3	11			
	4,014	3	11			
Less Drawings	850	–	–			
				3,164	3	11
			£	17,256	17	3

as between themselves, it is usual to allow interest on partners' capitals. Where partners share equally in the profits, but have unequal capitals, the partner with the smaller capital would otherwise get an advantage over the other; and where the partners have equal capitals but share profits unequally, the partner who takes the larger share of profits would otherwise gain at the expense of the other. The interest is debited to Profit and Loss Account and credited to the Capital Accounts or Current Accounts as the case may be.

Interest on Drawings. In many cases, interest is not chargeable on drawings, the reason being that the drawings are not out of *capital* but on account of *profits* that are accruing. Where, however, partners withdraw capital sums, interest is charged. In order to adjust the rights of the partners *inter se*, that is, to prevent one partner getting any advantage over the others, it is also necessary to charge interest on drawings where partners, who are equal as regards capital and share of profits, draw out *unequal* sums. The interest is debited, by means of a journal entry, to the Drawings Account and credited to an Interest on Capital Account.

Drawings Account. The following is an example *without interest*—

Dr. R. RUMLEY.—DRAWINGS ACCOUNT *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Mar. 1	To Cash	60	–	–	Dec. 31	By Transfer to Capital A/c . .	240		-
June 1	" "	50	–	–					
Sept. 1	" "	75	–	–					
Dec. 1	" "	55	–	–					
		£240	–	–			£240	–	–

The following is an example *with interest*—

Dr. R. RUMLEY.—DRAWINGS ACCOUNT *Cr.*

19—		Interest £	Interest s.	Interest d.	£	s.	d.	19—		£	s.	d.
Mar. 1	To Cash . .	2	10	–	60	–	–	Dec. 31	By Transfer to Capital A/c .	245	8	9
June 1	" " . .	1	9	2	50	–	–					
Sept. 1	" " . .	1	5	–	75	–	–					
Dec. 1	" " . .		4	7	55	–	–					
" 31	" Interest .				5	8	9					
					£245	8	9			£245	8	9

Interest on capital, and share of profits, are sometimes shown in the Drawings Account instead of in the Capital Account. The balance of the Drawings Account is transferred to the Capital Account, unless the latter is a fixed amount; in such cases it appears separately on the Balance Sheet, and the Account is more commonly called a Current Account. On page 312 is an example *with interest on capital, and share of profit.*

Dr. R. RUMLEY.—DRAWINGS ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19—					19—				
Mar. 31	To Cash . .	120	–	–	Dec. 31	By Interest on Capital . .	250		
June 30	" " . . .	80	–	–	" 31	" Share of Profit .	365	16	6
Sept. 30	" " . .	65	–	–					
Dec. 31	" " . . .	130	–	–					
" 31	" Balance transferred to Capital A/c . .	220	16	6					
		£615	16	6			£615	16	6

Goodwill. This term has received various legal definitions, e.g. "Nothing more than the probability that the old customers will resort to the old place"; "The benefit arising from connection and reputation." Looked at from another point of view, it should represent the value of the ability of a business to make surplus profit after charging interest on the capital employed, and allowing for a management salary in case the proprietor did not wish to manage it himself. The goodwill may arise from the reputation of the article sold, the personality of the proprietor, monopoly, patents, trade-marks, favourable locality, etc. Goodwill may have to be taken into consideration on the death of an existing partner or the admission of a new one, and also on the sale of the business. For the purpose of sale, the value of the goodwill is usually taken to be from one to five years' purchase of the average net profits for a period of years, though in retail business it is often based on the turnover. The value of goodwill is governed by so many circumstances that no general rule can be laid down.

Goodwill and Incoming Partners. It is usual to charge an incoming partner a premium for goodwill. The method of treating this item in the books of account varies considerably. There are four main ways of dealing with this matter, and they are as follows—

1. A Goodwill Account is raised, the amount being credited to the old partners in the proportion in which they share profits and losses.

2. The premium paid for a share of the goodwill by the incoming partner is drawn out again, in cash, by the old partners.

3. The premium paid for a share of the goodwill by the incoming partner is retained in the business; the sum so paid being credited in the proper proportions to the old partners' Capital Accounts.

4. The premium paid for a share of the goodwill by the incoming partner is paid to the old partners direct, no record being made in the firm's books.

It is to the advantage of the incoming partner that the payment of a premium for goodwill should be shown in the partnership books, and thus ensure there being a permanent record of it, in order to facilitate matters if he should retire and require payment to him of a similar sum. It is also, usually, to the advantage of the new

partner that the premium he pays on admission should not be drawn out again, but should be left in the business, so that the latter shall derive some benefit from it.

Example 1. J. Rowell and M. Collado are in partnership sharing profits and losses in the proportions of two-thirds and one-third respectively. They agree to admit C. Constantinides as a partner with a fifth share on condition that he brings in £2,000 capital, and that the old partners are credited with their respective shares of the goodwill estimated at £1,200. Rowell and Collado, as between themselves, are to share profits and losses in the same ratio as before. Make the necessary entries in the books, and state the partners' future proportions of profit respectively.

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		£	s.	d.	£	s.	d.
	Goodwill	1,200	–	–			
	To J. Rowell $\frac{2}{3}$ . . .				800	–	–
	„ M. Colado $\frac{1}{3}$ . . .				400	–	–
	For their respective shares of Goodwill.						

Dr. CASH BOOK *Cr.*

	£	s.	d.				
To C. Constantinides (Capital A/c)	2,000	–	–				

As Constantinides takes one-fifth of the profits, four-fifths will remain, and the partners' shares will be as follows—

Rowell	will receive $\frac{2}{3}$ of $\frac{4}{5}$	or $\frac{8}{15}$ths;
Collado	„ „ $\frac{1}{3}$ of $\frac{4}{5}$	or $\frac{4}{15}$ths;
Constantinides	„ „ $\frac{1}{5}$	or $\frac{3}{15}$ths.

Example 2. J. Judge and K. King are in partnership, sharing profits and losses in the proportions of three-fourths and one-fourth respectively. They agree to admit K. Kerry as a partner on condition that he brings into the business £1,500 capital and pays them a premium of £300 for a fifth share in the profits. Make the necessary entries in the books.

Dr. CASH BOOK *Cr.*

	£	s.	d.				
To K. Kerry (Capital A/c) .	1,500	–	–				

As only £1,500 was brought into the business, a separate cheque would be handed to Judge and King for the premium.

Example 3. O. Oldham and B. Barlass are in partnership sharing profits and losses three-fifths and two-fifths respectively. They

agree to admit W. Wheater as a partner on condition that he brings into the business £2,500, £500 of which is to be regarded as premium for admission, but is to be paid out to the partners in the proportions in which they are entitled to share it. Make the necessary entries in the books.

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To W. Wheater (Capital A/c) .	2,000	–	–	By O. Oldham, Capital A/c (Share of Premium withdrawn)	300	–	–
" O. Oldham, Capital A/c ($\frac{3}{5}$ of Wheater's Premium)	300	–	–	" B. Barlass, Capital A/c (Share of Premium withdrawn) . . .	200	–	–
" B. Barlass Capital A/c ($\frac{2}{5}$ of Wheater's Premium)	200	–	–				

In this case the money brought in by Wheater must be split up, the capital being separated from the premium, which belongs to the old partners, and must be credited to their Capital Accounts in the same proportion in which they are entitled to share profits.

Example 4. A. Appleton and P. Pearson are in partnership, sharing profits and losses three-fourths and one-fourth respectively, They agree to admit C. Cherry as a partner on condition that he brings in £2,400, £400 of which is to be regarded as premium for goodwill; the money, however, is to remain in the business. Make the necessary entries in the books.

Dr. CASH BOOK *Cr.*

	£	s.	d.				
To C. Cherry, Capital A/c .	2,000	–	–				
" A. Appleton " " .	300	–	–				
" P. Pearson " " .	100	–	–				

Example 5. C. Coward agrees to admit F. Glen into partnership on the following terms: (*a*) That Glen brings £2,650 Capital in Cash into the business; (*b*) that £650 is to be paid out to C. Coward and is to appear in the books of the partnership as Goodwill. Make the necessary entries in the books.

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To F. Glen (Capital A/c) .	2,650	–	–	By Goodwill A/c (amount paid out to C. Coward by way of premium) . . .	650	–	–

Adjustment of Assets on Admission of Partner, Amalgamation of Businesses. It often happens, when a new partner is admitted, that the assets of the business are re-valued, any appreciation or depreciation being adjusted in the Capital Accounts of the old partners. A new partner may also bring into the partnership other

assets besides Cash, namely, Book Debts, Plant, etc., and the Goodwill of his own connection.

Example. V. Evans and T. Taylor are partners in a coal business, sharing profits and losses equally. On 31st December, their Capitals stood at £3,500 and £3,000 respectively. The firm's assets and liabilities on the same date were as follows: Coal Trucks, £756; Furniture and Fittings, £260; Sundry Creditors, £1,140; Cash at Bank, £1,325; Carts, Plant, and Horses, £840; Bills Payable, £1,068; Sundry Debtors, £4,740; Cash in hand, £52; and Stock of Coal, £735. They agree to take into partnership P. Primrose, a colliery agent, as and from 1st January, on the following terms: Profits and losses to be shared, Evans two-fifths, Taylor two-fifths, and Primrose one-fifth. Primrose is to bring into the business Sundry Debtors amounting to £720 (less a Reserve of 5 per cent for Bad Debts), and the Goodwill of his connection estimated at £400. His Capital in the new business is to be £1,800, the balance of which he is to pay in Cash on 1st January, 19... It was also agreed between them that the following adjustments should be made as regards the business of Evans and Taylor: Coal Trucks to be taken at £955, and Carts, Plant, and Horses at £950, the values placed on them by a public valuer; a Bad Debts Reserve of 5 per cent of the Sundry Debtors to be created; the Goodwill to be valued at £1,250; and Evans to be paid out from the Bank balance such a sum as will reduce his Capital to the same amount as Taylor's. Make the necessary entries in the subsidiary books to carry out the above agreement, and show the Balance Sheet of the new firm prior to commencing business.

In Evans and Taylor's Books

JOURNAL *Dr.* *Cr.*

		£	s.	d.	£	s.	d.
19..							
Jan. 1	Sundry Debtors	720	–	–			
	Goodwill	400	–	–			
	To Bad Debts Reserve				36	–	–
	„ P. Primrose (Capital A/c)				1,084	–	–
	For assets brought in by P. Primrose.						
„ 1	Coal Trucks	199	–	–			
	Carts, Plant, and Horses	110	–	–			
	Goodwill	1,250	–	–			
	To Bad Debts Reserve				237	–	–
	„ V. Evans (Capital A/c)				661	–	–
	„ T. Taylor (Capital A/c)				661	–	–
	For net gain to Evans and Taylor on the revaluation of their assets.						

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To Balance	1,325	–	–	By V. Evans (Capital A/c) (amount withdrawn by him to reduce his Capital, £4,161, to the same amount as T. Taylor, £3,661)	500	–	
„ P. Primrose (Capital A/c) (amount paid in by him to raise his Capital from £1,084 to £1,800)	716	–	–				

BALANCE SHEET AS AT 1ST JANUARY, 19—

Liabilities	£	s.	d.	*Assets*		£	s.	d.
Bills Payable	1,068	–	–	Cash in hand		52	–	–
Sundry Creditors	1,140	–	–	Cash at Bank		1,541	–	–
Capital Accounts—				Debtors	£5,460			
V. Evans	3,661	–	–	*Less* Reserve	273			
T. Taylor	3,661	–	–			5,187	–	–
P. Primrose	1,800	–	–	Stock of Coal		735	–	–
				Coal Trucks		955	–	–
				Carts, Horses, and Plant		950	–	–
				Furniture and Fittings		260	–	–
				Goodwill		1,650	–	–
	£11,330	–	–			£11,330	–	–

Guarantee of Assets and Liabilities—Preferential Claim on First Year's Profits. It often happens that an incoming partner requires the assets and liabilities, as shown by the firm's Balance Sheet, to be guaranteed, in order to protect himself against errors that may subsequently be discovered. Should a liability have been omitted or under-estimated, the loss arising from it will not then be borne by the new partnership, but solely by the old partners. Should discounts and bad debts arise in connection with the debtors in excess of what has been provided, the new partnership will not share in such losses, which will be debited to the old partners' Capital Accounts, and not to the firm's Profit and Loss Account.

On the other hand, there are sometimes profits accruing on work in progress, or orders in hand, which the old partners justly require to be reserved entirely for themselves. Such profits will be credited, in their proper proportions, to the Capital Accounts of the old partners, and not to the Profit and Loss Account of the firm. In some cases, however, an arrangement is made whereby the old partners become, in respect of such accruing gains, entitled to a preferential claim of a fixed amount of the first year's profits.

Goodwill and Outgoing Partners. On the death or retirement of a partner, his share of the Goodwill has to be valued, and the amount arrived at according to the terms of the partnership deed; or if no arrangement has been made, then the Goodwill of the firm is valued, and of this amount a proportion, the same as that in which he shares profits, is then credited to the said partner's Capital Account. Instead of the partner's share of the Goodwill, an annuity, or a percentage of the profits for a certain number of years, is sometimes paid to the deceased partner's representatives.

Policies of Survivorship Assurance. Partners often assure themselves either jointly or severally as a means of obtaining the necessary cash to pay out a deceased partner's share of the Capital and Goodwill. This prevents any financial difficulties when such a necessity arises. The premiums paid are debited to Profit and Loss as a business expense, and on the death of a partner, the cash received for the policy is debited in the Cash Book and credited to the partners' Capital Accounts (including the account of the deceased partner), in the same proportion as they share profits. The cash is then in hand with which to make the required payment. If desired, a Policy Account may be opened, and dealt with in a similar way to the Insurance Policy Method of depreciation.

Example. A. Ashton and B. Beeching are in partnership, sharing profits and losses three-fifths and two-fifths respectively. In order to provide money for repayment of their share of the Capital and Goodwill in the event of death, they assure their lives jointly for £8,000, paying an annual premium of £300, which is debited to the firm's Profit and Loss Account each December. Beeching dies on the last day of June, 19... The partnership deed provides that his representatives are to receive his Capital, as per the last Balance Sheet, plus interest at 5 per cent per annum to date of death, and his share of the profits to date of death, estimated according to the profits of the preceding year. They are also to receive as his share of the Goodwill an amount estimated at two years' purchase of his average net profits of the last three years, before charging the insurance premiums. The net profits for the last three years after charging the insurance premiums were £2,420, £2,800, and £2,310 respectively. Beeching's Capital, as per last Balance Sheet was £2,620, and his Drawings to date of death amount to £725. Make the necessary adjustments and draw up Beeching's Account, showing the amount payable to his legal representatives.

The Goodwill is calculated thus—

Average profit for the last three years before charging insurance premiums = (£2,720 + £3,100 + £2,610 ÷ 3) = (£8,430 ÷ 3) = £2,810.

Total Goodwill on basis of two years' purchase of the average net profits = (£2,810 × 2) = £5,620.

Beeching's share of Goodwill = $\frac{2}{5}$ of £5,620 = £2,248.

Dr CASH BOOK *Cr.*

		£	s.	d.				
To Assurance Policy—								
A. Ashton (Capital A/c) . .	£4,800							
B. Beeching (Capital A/c) . .	3,200	8,000	–	–				

Dr. **B. BEECHING (DECEASED)** Cr.

		£	s.	d.			£	s.	d.
19—					19—				
June 30	To Drawings .	725	–	–	Jan. 1	By Balance .	2,620	–	–
" 30	" Balance c/d .	7,870	10	–	June 30	" Interest on above, 6 mos. @ 5% p.a. .	65	10	–
					" 30	" Profits for 6 mos. ½ of (⅖ of £2,310).	462	–	–
					" 30	" Share of Goodwill . .	2,248	–	–
					" 30	" Cash (Share of Assurance Policy) .	3,200	–	–
		£8,595	10	–			£8,595	10	–
					June 30	By Balance b/d .	7,870	10	–

Dr. **B. BEECHING (DECEASED) LOAN ACCOUNT** Cr.

Year		£	s.	d.	Year		£	s.	d.
1	To Cash (6 mos.) .	750	–	–	1	By Balance . .	7,870	10	–
	" Balance c/d .	7,317	5	3		" Interest, 6 mos.	196	15	3
		£8,067	5	3			£8,067	5	3
2	To Cash . .	1,500	–	–	2	By Balance b/d .	7,317	5	3
	" Balance c/d .	6,183	2	6		" Interest, 1 year	365	17	3
		£7,683	2	6			£7,683	2	6
3	To Cash . .	1,500	–	–	3	By Balance b/d .	6,183	2	6
	" Balance c/d .	4,992	5	7		" Interest, 1 year	309	3	1
		£6,492	5	7			£6,492	5	7
4	To Cash . .	1,500	–	–	4	By Balance b/d .	4,992	5	7
	" Balance c/d .	3,741	17	10		" Interest, 1 year	249	12	3
		£5,241	17	10			£5,241	17	10
5	To Cash . .	1,500	–	–	5	By Balance b/d .	3,741	17	10
	" Balance c/d .	2,428	19	9		" Interest, 1 year	187	1	11
		£3,928	19	9			£3,928	19	9
6	To Cash . .	1,500	–	–	6	By Balance b/d .	2,428	19	9
	" Balance c/d .	1,050	8	9		" Interest, 1 year	121	9	–
		£2,550	8	9			£2,550	8	9
7	To Cash .	1,102	19	2	7	By Balance b/d .	1,050	8	9
						" Interest, 1 year	52	10	5
		£1,102	19	2			£1,102	19	2

Goodwill on Sale of a Partnership Business. When a partnership business is sold as a going concern, the amount obtained for the

Goodwill will be a profit, to be divided among the partners in the same proportion as they share profits on trading.

Repayment of Outgoing Partner's Share by Instalments. On the death or retirement of a partner, his share of the Capital and Goodwill may, instead of being paid out immediately to his representatives, be treated as a Loan, bearing interest, and repayable by fixed annual instalments.

Example. Assume in the previous example that B. Beeching's share of Capital, Profits, and Goodwill, viz. £7,870 10s., is payable by annual instalments of £1,500, interest at 5 per cent per annum being allowed on the outstanding balance. Show the Ledger Account in the firm's books.

Repayment of Outgoing Partner's Share with Interest from Date of Realization of Assets. Although, by law, interest ceases at the date of dissolution, yet it frequently happens that the continuing partner agrees to pay the outgoing partner his share by instalments with interest as and from the date of realization of the assets. In some cases, the average date is ascertained, and interest calculated from this date. The account then takes the form of an Account Current.

Example. M. Lowther and A. Borchardt are in partnership, sharing profits and losses equally. Lowther agrees to buy out Borchardt, and the position of affairs on this date is as follows—

BALANCE SHEET AS AT 1ST JANUARY, 19—

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors	1,270	–	–	Cash	1,340	–	–
Capital Accounts—				Sundry Debtors	4,850	–	–
M. Lowther	3,090	–	–	Office Furniture	260	–	–
A. Borchardt	2,090	–	–				
	£6,450	–	–		£6,450	–	–

Lowther is to take over the Office Furniture at £200, to allow Borchardt £540 for his share of the Goodwill, and to pay him his proportion as and when realized, interest to be taken into account at 5 per cent per annum. A loss of £150 is sustained on the Sundry Debtors, and a discount of £30 obtained from the Creditors. The latter were paid at an average date of *four* months, and the Debtors were realized at an average date of *eight* months from the date of dissolution. Lowther paid Borchardt £550 on 1st March, £550 on 1st June, £550 on 1st September, and the balance on 31st December. Draw up the Account Current between Lowther and Borchardt, and show the final payment made to Borchardt on 31st December.

A. BORCHARDT IN ACCOUNT CURRENT WITH M. LOWTHER

Dr. 31st December, 19.. *Cr.*

Date	Item	Amount £	s.	d.	Days	Products	Date	Item	Amount £	s.	d.	Days	Products
19..		£	s.	d.		£	19..		£	s.	d.		£
Mar. 1	To Cash . . .	550	–	–	305	167,750	Jan. 1	By Office Furniture ($\frac{2}{5}$ of £200) .	80	–	–	364	29,120
May 1	„ Sundry Crs. ($\frac{2}{5}$ of £1,240) . .	496	–	–	244	121,024	„ 1	„ Cash ($\frac{2}{5}$ of £1,340)	536	–	–	364	195,104
June 1	„ Cash . . .	550	–	–	213	117,150	„ 1	„ Goodwill . .	540	–	–	364	196,560
Sept. 1	„ Cash . . .	550	–	–	121	66,550	Sept. 1	„ Sundry Drs. ($\frac{2}{5}$ of £4,700) . .	1,880	–	–	121	227,480
Dec. 31	„ Balance of Products . .					175,790	„ 1	„ Interest on Balance of Products— $\frac{175,790 \times 10}{73,000}$	24	1	8		
„ 31	„ Balance c/d . .	914	1	8									
		£3,060	1	8		£648,264			£3,060	1	8		£648,264
Dec. 31	To Cash . . .	914	1	8			Dec. 31	By Balance b/d .	914	1	8		

Lowther owes Borchardt as follows—

Capital . . .	£2,000	–	–
Goodwill . .	540	–	–
Interest . . .	24	1	8
	£2,564	1	8

He pays as follows—

Mar. 1. Cash .	£550	–	–
June 1. Cash .	550	–	–
Sept. 1. Cash .	550	–	–
Dec. 31. Cash .	914	1	8
	£2,564	1	8

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT Cr.

19—		£	s.	d.	19—		£	s.	d.
Dec. 31	To Bad Debts (loss)	150	-	-	Dec. 31	By Discount on Creditors (gain)	30	-	-
„ 31	„ Furniture (loss)	60	-	-	„ 31	„ Capital A/cs (net loss)— Lowther, ½ £90 Borchardt, ½ £90	180	-	-
		£210	-	-			£210	-	-

ADJUSTED BALANCE SHEET.—31st December, 19—

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Creditors . . .	1,240	-	-	Cash . . .	1,340	-	-
Capital A/cs—				Debtors . . .	4,700	-	-
M. Lowther . .	3,000	-	-	Office Furniture .	200	-	-
A. Borchardt . .	2,000	-	-				
	£6,240	-	-		£6,240	-	-

Although Lowther and Borchardt share profits and losses, including profits and losses on realization of the assets, *equally*, yet the actual assets themselves, as per the Balance Sheet, belong to the partners in the proportion that their Capitals bear to the total Capital, three-fifths and two-fifths respectively.

Repayment of Outgoing Partner's Share by means of an Annuity. On the death or retirement of a partner, his share of the Capital and Goodwill is sometimes paid out by means of an annuity for a limited number of years, or for his lifetime, or for the joint lives of himself and wife.

In such cases, the total amount due will be credited to a separate account in the name of the annuitant and debited to a Goodwill Account. This separate account will be credited each year with interest at an agreed rate on the diminishing balance, and debited each year with the payment of the annuity. The amount of the latter will be ascertained from Annuity Tables. If before the expiration of the annuity, this account is extinguished, all future payments of the annuity will be debited to Profit and Loss as a sustained loss; on the other hand, if the annuity terminates before this credit sum is exhausted, the balance will be transferred to the Goodwill Account in reduction thereof. Until the Annuity Account is finally closed, the balance of it will appear each year on the liabilities side of the Balance Sheet. An alternative method would be simply to debit a Goodwill Account each time the annuity is paid.

LIMITED PARTNERSHIP

Definition. A Limited Partnership is a partnership formed under the Limited Partnerships Act, 1907, which came into operation on the 1st January, 1908.

Meanings of Terms. By Section 3—

" Firm," " firm name," and " business " have the same meanings as in the Partnership Act, 1890.

" General Partner " shall mean any partner who is not a limited Partner as defined by this Act.

Constitution of a Limited Partnership. Section 4 enacts as follows—

(2) A limited partnership shall not consist, in the case of a partnership carrying on the business of banking, of more than ten persons, and, in the case of any other partnership, of more than twenty persons, and must consist of one or more persons called GENERAL PARTNERS, who shall be liable for all debts and obligations of the firm, and of one or more persons to be called LIMITED PARTNERS, who shall at the time of entering into such partnership contribute thereto a sum or sums as capital or property valued at a stated amount, and who shall not be liable for the debts or obligations of the firm beyond the amount so contributed.

(4) A body corporate may be a Limited Partner.

Limited Partner's Capital a Fixed Contribution. By Section 4, subsection 3—

A Limited Partner shall not during the continuance of the partnership, either directly or indirectly, draw out or receive back any part of his contribution, and if he does so draw out or receive back any such part shall be liable for the debts and obligations of the firm up to the amount so drawn out or received back.

Registration Required. By Section 5 of the Act it is enacted that—

Every limited partnership must be registered as such in accordance with the provisions of this Act, or in default thereof it shall be deemed to be a general partnership, and every Limited Partner shall be deemed to be a General Partner.

The partnership must be registered by sending to the Registrar of Joint Stock Companies a statement, signed by all the partners, giving (Section 8), the following particulars—

1. The firm name.
2. The general nature of the business.
3. The principal place of business.
4. The full name of each of the partners.
5. The term, if any, for which the partnership is entered into, and the date of its commencement.
6. A statement that the partnership is limited, and the description of every limited partner as such.
7. The sum contributed by each limited partner, and whether paid in cash, or how otherwise.

Notice of any change of the above must be sent to the Registrar within seven days. A Registration fee of £2 is payable, and an *ad valorem* stamp duty of £1 per cent on the amount introduced by the limited partner or partners, or any subsequent increase. Any person may inspect the Register of Limited Partnerships on payment

of 1s., and may also obtain copies of any documents on payment of the prescribed fees.

Modifications of Partnership Law in the case of Limited Partnerships. Section 6 enacts as follows—

(1) A Limited Partner shall not take part in the management of the partnership business, and shall not have power to bind the firm:

Provided that a Limited Partner may by himself or his agent at any time inspect the books of the firm and examine into the state and prospects of the partnership business, and may advise with the partners thereon.

If a Limited Partner takes part in the management of the partnership business he shall be liable for all debts and obligations of the firm incurred while he so takes part in the management as though he were a General Partner.

(2) A limited partnership shall not be dissolved by the death or bankruptcy of a Limited Partner, and the lunacy of a Limited Partner shall not be a ground for dissolution of the partnership by the Court unless the lunatic's share cannot be otherwise ascertained and realized.

(3) In the event of the dissolution of a limited partnership its affairs shall be wound up by the general partners unless the Court otherwise orders.

Rights and Duties of Limited and General Partners. These are determined by Section 6 (5), which says—

Subject to any agreement express or implied between the partners—

(*a*) Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the General Partners.

(*b*) A Limited Partner may, with the consent of the General Partners, assign his share in the partnership, and, upon such assignment, the assignee shall become a Limited Partner with all the rights of the assignor.

(*c*) The other Partners shall not be entitled to dissolve the partnership by reason of any Limited Partner suffering his share to be charged for his separate debt.

(*d*) A person may be introduced as a Partner without the consent of the existing Limited Partners.

(*e*) A Limited Partner shall not be entitled to dissolve the partnership by notice.

Application of General Partnership Law. Section 7 of the Act enacts as follows—

Subject to the provisions of this Act, the Partnership Act, 1890, and the rules of equity and of common law applicable to partnerships, except so far as they are inconsistent with the express provisions of the last-mentioned Act, shall apply to limited partnerships.

Advantages and Disadvantages of Limited Partnerships. In the case of the Limited Partner the advantages are (1) that his liability is limited to the amount he has agreed to contribute, and (2) that he can share in the profits of the partnership without increasing this fixed liability. This enables a capitalist to provide funds for inventors to carry out their ideas, also friends to finance a young man setting up in business, and to share in any benefits accruing, without incurring any further risk beyond the fixed liability. The disadvantages are (1) the Limited Partner cannot withdraw any part of his capital, (2) he cannot take part in the management, (3) he cannot dissolve the partnership by giving notice, (4) other

partners can be introduced without his consent, (5) there is publicity consequent upon registration and open inspection of the Register.

As regards the General Partner the advantages are (1) fresh capital can be obtained without the expense and formalities of converting the business into a limited company, or without mortgaging his property, (2) the Limited Partner cannot interfere with the management of the business, (3) a new partner can be introduced without the consent of the Limited Partner, (4) there is no fear of capital being suddenly withdrawn, as the death or bankruptcy of the Limited Partner does not of itself dissolve the partnership, neither can the Limited Partner dissolve it by giving notice. The disadvantages to him are, chiefly, compulsory registration, and the consequent publicity through anyone being able to inspect the Register and obtain copies of any document.

Winding up of Limited Partnerships. Section 127 of the Bankruptcy Act, 1914, enacts that the provisions of this Act shall apply to Limited Partnerships in like manner as if they were ordinary partnerships, and on all the General Partners being adjudged bankrupt, the assets of the Limited Partnership shall vest in the trustee.

QUESTIONS ON CHAPTER X

A

1. What is the legal definition of " partnership " ?
2. What three relationships are not " partnerships " within the meaning of the Partnership Act?
3. Mention five cases in which the receipt by a person of a share in the profits of a business does not make that person a partner or liable as such.
4. What partnerships are prohibited by law?
5. Explain the meaning of the terms " firm " and " firm-name."
6. State briefly some of the differences between an ordinary partnership and a joint stock company.
7. Explain what is meant by the following: " Active Partner," " Dormant Partner," " Limited Partner," " *quasi* partner."
8. What power has a partner, as such, to bind his firm?

B

1. How far is each partner liable for the obligations of the firm? Does this liability continue after his decease?
2. What is the liability of the firm with reference to money or property—
   (*a*) received by a partner, who misapplies it?
   (*b*) received by the firm, and a partner misapplies it?
3. Explain what is meant by " holding out," and the liabilities attaching to it. Does the penalty apply to the continued use of the firm-name after the decease of any of the partners?
4. What are the liabilities of incoming and outgoing partners respectively? Can they be discharged from these liabilities by an agreement between all the partners?
5. Can partners vary their mutual rights and duties by means of a written agreement?

6. What is meant by " Partnership Property," and how must it be dealt with according to the Partnership Act?

7. What are the mutual rights and duties of partners, as laid down by the Partnership Act, in regard to the following—

(1) Sharing of Profits or Losses? (2) Payments made by a partner on account of the firm? (3) Advances to the firm by a partner? (4) Interest on Capital? (5) Management of the business? (6) Remuneration of partners? (7) Introduction of new partners? (8) Disputes *re* partnership affairs? (9) Partnership books?

8. Can a partner be expelled by the other partners?

9. When does a partnership terminate? Under what circumstances is a " continuance " of a partnership presumed?

C

1. What are the respective duties of partners towards the firm?

2. Can a partnership exist without a deed or written agreement? What are such partnerships then called?

3. Outline the principal points which should be specifically dealt with in a partnership deed, in view of the conflicting legal interpretations of the Partnership Act.

4. Explain what is meant by " fixed " Capital Accounts. What is the object of such? Draw up a Balance Sheet both ways in order to illustrate your answer.

5. Explain the nature and treatment of " Partners' Advances." Why are such sums not put in as additions to Capital?

6. Explain the object and treatment of " Partners' Salaries." Is the salary always drawn out?

7. Why is it at times necessary to charge interest on Capital in a partnership? How is such interest dealt with in the books?

8. When is it necessary in a partnership to charge interest on Drawings, and when not? Give reasons in each case for your answer.

9. Submit *pro forma* Drawing Accounts of three kinds to illustrate actual business practice.

10. What is meant by partners' Current Accounts? How do they differ from partners' Drawing Accounts?

D

1. What is meant by " goodwill " in a partnership? How does goodwill arise? When is goodwill brought into the books, and when not?

2. How is the value of the goodwill of a business arrived at?

3. In what different ways is goodwill treated in the case of an incoming partner who pays a premium for a share therein?

4. When assets are re-valued on admission of a new partner, how should any appreciation or depreciation thereof be treated in the books?

5. Explain the phrases " Guarantee of Assets and Liabilities," and " Preferential Claim on Profits." Under what circumstances do such things arise, and how are they dealt with in the books?

6. How is goodwill valued and treated in the case of an outgoing partner?

7. What is meant by " Policies of Survivorship Assurance "? Explain their treatment in the books.

8. How is goodwill treated on the sale of a partnership business?

9. What various methods are there of repaying an outgoing partner his share in the partnership?

10. Explain the method of treatment in the books where an outgoing partner's share is being repaid by means of an annuity.

11. What are the advantages and disadvantages of limited partnerships?

EXERCISE X

1. What constitutes a partnership, and can a partnership exist without each partner becoming personally liable for the firm's responsibilities to creditors?

John Leach and William Nash had carried on business as linen drapers for some years, but without any partnership deed, or without any arrangement as to the course to be adopted in the event of the death of either party. The business had been a profitable one, and the accounts had been made up yearly on the 31st December, and professionally audited by an auditor called in for the purpose. Leach died suddenly in July last, leaving his entire estate to his widow. What course would Nash have to adopt under the circumstances, and when would Leach's estate cease to have an interest in the profits of the business? (*London Chamber of Commerce.*)

2. Give the "Drawings Account" of John Robertson as it would appear in the firm's Private Ledger as on 31st December, under the following conditions—

His Capital on 1st January was £5,000.

His drawings were: 1st May, £250; 1st July, £300; 1st November, £200; 1st December, £100.

His share of profits for the year was £795.

Interest is allowed by the firm's Partnership Articles on Capital and charged on withdrawals at the rate of 5 per cent per annum. (*Royal Society of Arts.*)

3. A and B are partners in A and B's Coal Stores, and they share profits and losses equally. On 31st December, they had Capital in the business: A, £3,100; and B, £2,600. The assets and liabilities of the firm, as on that date, stood at the following figures in the books: Office Furniture and Fittings, £320; Coal Trucks, £930; Trade Creditors, £848; Cash at Bank, £1,166; Carts, Plant, and Horses, £476; Bills Payable, £652; Sundry Debtors, £3,720; Cash in hand, £18; and Stock of Coal, etc., £570.

They agreed to take into partnership C, a coal agent, as from 1st January next on the following terms; Profits and Losses to be shared; A, $\frac{3}{8}$ths; B, $\frac{3}{8}$ths; and C, $\frac{1}{4}$th. C was to bring into the partnership "Book Debts" amounting to £560 (less a reserve for Bad Debts of 5 per cent), and the Goodwill of his connection, valued at £310; while his Capital in the new firm was to be £1,000, the balance of which he was to pay in cash on signing the Articles of Partnership on 1st January. It was further agreed between A, B, and C that the following adjustments should be made in the figures as shown on A and B's Balance Sheet on 31st December. The Coal Trucks were to be taken at £1,000, and the Carts, Plant, and Horses as at £550, the result of an independent valuation; a Bad Debt reserve of $7\frac{1}{2}$ per cent was to be deducted from outstanding Debtors; the Goodwill of the old firm (A and B) was to be taken at £455; and A was to be paid out from the Bank Balance such a sum as would make his Capital equal to B's. The Agreement was carried out.

You are required (*a*) to make the Journal entries necessary to complete the above adjustments, and (*b*) to draw up a Balance Sheet showing the position of the new firm as on 1st January. (*Royal Society of Arts.*)

4. Dickson & Bell, having Capitals of £2,000 and £1,500 respectively, admit Peters into partnership on terms that he shall contribute £1,000 as Capital, and pay them £1,400 as his share of the Goodwill. Interest on Capital to be at 5 per cent per annum (charged to Profit and Loss Account) and profits to be shared in the proportion of 4, 3, and 2. Peters has only £1,000, which he pays in as Capital; and in an attempt to meet the position, the partners raise a "Goodwill Account" for £1,400, which is credited, £800 to Dickson's Capital

and £600 to Bell's. You are called in at the end of the year, and find they have closed off the Profit and Loss Account as under—

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

		£		£
To Interest on Capital—			By Profit . . .	2,500
Dickson . .	£140			
Bell . .	105			
Peters . .	50			
		295		
„ Profits divided—				
Dickson . .	£980			
Bell . .	735			
Peters . .	490			
		2,205		
		£2,500		£2,500

Correct the error made by the partners, and the effect thereof, by Journal entries, (which should be fully explanatory). Show the true position of the partners' accounts. (*Chartered Accountants.*)

5. The books of Black & White, who are equal partners, are balanced yearly as on 31st December. Before profits are ascertained and divided, 5 per cent interest is allowed upon partners' Capital. Depreciation at the rate of 5 per cent is written off the Plant Account, and a provision of 5 per cent is made for Bad and Doubtful Debts. One year's interest, at the rate of 4½ per cent, is due upon the Loan on Mortgage, and has not yet been passed through the books. The Stock on hand, as on 31st December, was valued at £3,225. The following are the final balances as on 31st December—

	£		£
Purchases	16,450	Trade Charges . . .	400
Manufacturing Wages .	2,150	Premium on Lease Account (6 years unexpired as on 1st January) . . .	2,400
Sales	24,800	Sundry Creditors . .	15,345
Black's Capital Account .	5,000	Loan on Mortgage . .	5,000
„ Drawings Account (including Interest) . .	550	Freehold Land and Buildings	8,000
White's Capital Account .	2,000	Plant Account . . .	4,000
„ Drawings Account (including Interest) . .	350	Reserve for Bad and Doubtful Debts (as on 1st Jan.).	600
Stock (as on 1st January) .	3,000	Sundry Debtors . . .	13,100
Salaries	820	Cash at Bank . . .	1,200
Rates and Taxes . .	325		

Prepare a Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

6. Messrs. Lion & Unicorn are in partnership as chemical manufacturers. Profits or losses are divided equally. Under the deed of partnership the following adjustments are necessary before the division of profits—

Five per cent Interest is allowed on Partners' Capital; 10 per cent Depreciation is to be written off Plant Account and Barges Account; 5 per cent provision is to be made for Bad and Doubtful Debts.

On 31st December the Ledger balances of the firm were as follows—

	£		£
Purchases Account	63,000	Sundry Creditors	3,860
Barges Account	3,250	Insurance	265
Repairs and Replacements	3,205	Bad Debts	341
Freight and Marine Insurance	312	„ „ Reserve Account (1st January)	385
Allowances from Creditors	2,420	Advertising	982
Coal	4,404	„ Suspense Account	5,800
Gas and Water	302	Cottage Rents Received	117
Machinery and Plant Account	25,000	Cash in hand	325
Wages	6,221	R. Lion, Capital Account	59,400
Land and Buildings Account	13,840	„ Drawings Account (including Interest)	4,250
Salaries	858	P. Unicorn, Capital Account	30,000
Sundry Debtors	7,940	„ Drawings Account (including Interest)	2,050
Sales	74,441		
Cash at Bank	2,185		
Stock (1st January)	25,220		
Rent, Rates, and Taxes	873		

Stock was taken as on 31st December, and was agreed at £30,342. It was also agreed to write off half the Advertising Suspense Account, and to transfer to Building Account £3,000 from Purchases Account, and £250 from Wages Account, representing cost of material and labour spent upon new buildings erected during the year. Prepare Trading and Profit and Loss Accounts for the year ended 31st December and a Balance Sheet as on that day. (*London Chamber of Commerce.*)

7. William James and Edward Jones entered into partnership on the 1st January, under the style of James & Jones, as Wholesale and General Ironmongers. On the 1st January, James paid in as his Capital, £3,000, and on the 1st March, Jones paid in as his Capital, £2,000. The profits were to be divided in proportion to the capital brought in. Interest at 5 per cent was to be charged upon their respective drawings, and Jones had to be charged interest at the same rate upon his Capital from 1st January to the 1st March. On 31st December, Stock was taken (which amounted to £2,478), and the book-keeper took out the Trial Balance of the Books, which was as follows—

	£	£
Plant, Tools, etc.	750	
Office Furniture and Fittings	250	
Horses, Carts, and Harness	225	
Purchases	5,750	
Sales		6,020
Rents, Rates, Taxes, and Insurance	187	
Office and General Expenses	125	
Freight and Carriage	115	
Horse Keep	95	
Discounts and Allowances	45	
Interest, Commission, and Bank Charges	32	
Printing, Stationery, and Advertising	15	
Travelling Expenses	120	
Salaries and Wages	1,020	
William James—Capital Account		3,000
Edward Jones—Capital Account		2,000
Carried forward	£8,729	£11,020

	£	£
Brought forward	£8,729	£11,020
William James—Drawings—		
1st March	80	
1st June	100	
1st September	50	
1st December	120	
Edward Jones—Drawings—		
1st April	50	
1st July	75	
1st October	75	
1st December	75	
Trade Debtors	2,514	
„ Creditors		848
	£11,868	£11,868

Prepare, by Journal entries, the Profit and Loss Account—having first dealt with the interest referred to in the preliminary paragraph—pass the Profit (or Loss, as the case may be) to the partners' Accounts, and then prepare a General Statement of Assets and Liabilities as at the 31st December. (*London Chamber of Commerce.*)

8. X, Y, and Z are partners.

Their respective Capitals in the business, as shown by their Balance Sheet on 31st December are: X, £3,000; Y, £2,200; Z, £800. The profit for the year, amounting to £1,600, has been credited to X, ½ share; Y and Z, ¼ each, and the books have been closed.

During the year they have withdrawn nothing beyond their salaries, which have already been charged to Profit and Loss Account. It is found on 31st March next that interest on the Partners' Capital (5 per cent per annum), as provided by the partnership agreement, has been omitted.

Give the entries you would make in the books to correct this error. (*West Riding of Yorkshire.*)

9. From the following particulars draw up the liabilities side of the Balance Sheet in two ways, in order to illustrate the difference in the presentation of accounts when the Capitals are (*a*) fixed, (*b*) not fixed—

Bills Payable, £1,706 2s. 8d.; Sundry Creditors, £2,173 13s. 9d.; Outstanding Expenses, £175 3s. 11d.; Loan Account, R. Rudd, £1,500; Capital Accounts; R. Rudd, £7,000; B. Butler, £4,500; Drawing Accounts: Rudd, £1,600; Butler, £1,200; Shares of Profit: Rudd, £1,473 2s. 8d.; Butler, £1,156 13s. 10d.; Interest on Capitals: Rudd, £350; Butler, £225; Interest on Loan: R. Rudd, £75.

10. A. Aplin and C. Charles are in partnership, sharing profits and losses three-fifths and two-fifths respectively. They agree to admit P. Paton as a partner with a fifth share on condition that he brings in £1,500 Capital, and that the old partners are credited with their respective shares of the Goodwill estimated at £2,000. Aplin and Charles, as between themselves, are to share profits and losses in the same ratio as before. Make the necessary entries in the books, and state the partners' future proportions of profit respectively.

11. A. Bassett and P. Palmer are in partnership sharing profits and losses two-thirds and one-third respectively. They agree to admit D. Dawson as a partner on condition that he brings into the business £1,500 Capital and pays them a premium of £250 for a fifth share in the profits. Make the necessary entries in the books.

12. B. Blackburn and P. Pinner are in partnership, sharing profits and losses two-thirds and one-third respectively. They agree to admit M. Marsden as a partner on condition that he brings into the business £1,800, £240 of which is to be regarded as premium for admission, but is to be paid out to the partners in the proportions in which they are entitled to share it. Make the necessary entries in the books.

13. G. Gardner and C. Campbell are in partnership, sharing profits and losses two-thirds and one-third respectively. They agree to admit R. Reid as a partner on condition that he brings in £1,800, £240 of which is to be regarded as premium for Goodwill; the money, however, is to remain in the business. Make the necessary entries in the books.

14. D. Dutton agrees to admit F. Fletcher into partnership on the following terms: (*a*) That Fletcher brings £2,300 Capital into the business; (*b*) that £300 is to be paid out to Dutton and is to appear in the books of the partnership as Goodwill. Make the necessary entries in the books.

15. A. Dean and B. Gibson are partners in a Timber business, sharing profits and losses equally. On 31st December their Capitals stood at £5,375 and £4,865 respectively. The firm's Assets and Liabilities on the same date were as follows: Plant and Tools, £1,926; Furniture and Fixtures, £105; Sundry Creditors, £920; Cash at Bank, £1,406; Horses, Carts, Waggons, etc., £1,685; Bills Payable, £657; Sundry Debtors, £3,940; Cash in hand, £35; Stock of Timber, £2,720. They agree to take into partnership F. Fir, a Timber Agent, as and from 1st January on the following terms; Profits and Losses to be shared: Dean, two-fifths; Gibson, two-fifths; and Fir, one-fifth. Fir is to bring into the business Sundry Debtors, amounting to £920 (less a Reserve of 5 per cent for Bad Debts), and the Goodwill of his connection, estimated at £350. His Capital in the new business is to be £2,150, the balance of which he is to pay in in Cash on 1st January. It was also agreed between them that the following adjustments should be made as regards the business of Dean and Gibson: Plant to be taken at £2,060, and Horses, Carts, Waggons, etc., £1,720, the values placed on them by a public valuer; a Bad Debts Reserve of 5 per cent of the Sundry Debtors to be created; Goodwill to be valued at £1,050; Dean to be paid out from the Bank's balance such a sum as will reduce his Capital to the same amount as Gibson's. Make the necessary entries in the subsidiary books to carry out the above agreement, and show the Balance Sheet of the firm prior to commencing business.

16. Smith, Brown and Robinson enter into partnership, as equal partners, for the purpose of purchasing the successful business of Peter White, who is retiring.

The business was taken over as on 1st January, as it stood, upon the basis of the last Balance Sheet, which was as follows—

BALANCE SHEET OF PETER WHITE

	£		£
Capital Account . .	20,540	Leasehold Factory . .	12,540
Sundry Creditors . .	3,218	Machinery and Plant . .	8,200
Reserve Account for Depreciation . . .	608	Patents Account . .	600
		Sundry Debtors . . .	1,560
		Stock on hand . . .	1,458
		Difference in Books . .	8
	£24,366		£24,366

The purchase price of the business as a going concern was agreed at £25,000, which amount was duly paid to Peter White.

Cash was paid into the new firm's banking account by the partners as follows: Smith, £12,000; Brown, £10,000; Robinson, £6,000.

Before opening the books of the new firm it was agreed (*a*) to write off the difference in the books; (*b*) to transfer the Reserve Account for Depreciation to Machinery and Plant Account, and to write off a further £200 as depreciation; and (*c*) to write off £200 from Patents Account.

Make the entries necessary to record the above transactions in the books of the new firm, and prepare a Balance Sheet disclosing the position of Smith, Brown, and Robinson upon commencing business. (*London Chamber of Commerce.*)

17. O. Brown and P. Crew are in partnership, sharing profits and losses three-fifths and two-fifths respectively. In order to provide money for repayment of their share of the Capital and Goodwill in the event of death, they assure their lives jointly for £8,000, paying an annual premium of £310, which is debited to the firm's Profit and Loss Account each December. Crew dies on the last day of June, 19... The partnership deed provides that his representatives are to receive his Capital as per the last Balance Sheet, plus interest at 5 per cent per annum to date of death, and his share of the profits to date of death, estimated according to the profits of the preceding year. They are also to receive his share of the Goodwill, estimated at two years' purchase of the average net profits of the last three years before charging the insurance premiums. The net profits for the last three years after charging the insurance premiums were £2,073, £2,458, and £2,024 respectively. Crew's Capital as per last Balance Sheet was £3,000, and his Drawings to date of death amounted to £720. Make the necessary adjustments and draw up Crew's Account, showing the amount payable to his legal representatives.

18. Assume in the previous exercise that P. Crew's share of the Capital and Goodwill is payable by annual instalments of £2,000, interest at 5 per cent per annum being charged on the outstanding balance. Show the Ledger Account in the firm's books.

19. E. Helm and P. Porter are in partnership, sharing profits and losses equally. Helm agrees to buy out P. Porter, and the position of affairs on this date is as follows—

BALANCE SHEET.—1st January

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors	1,265	–	–	Cash	1,525	–	–
Capital A/cs—				Sundry Debtors	4,624	–	–
E. Helm	3,110	–	–	Office Furniture	336	–	–
P. Porter	2,110	–	–				
	£6,485	–	–		£6,485	–	–

Helm is to take over the Office Furniture at £310, to allow Porter £625 for his share of the Goodwill, and to pay him his proportion as and when realized, interest to be taken into account at 5 per cent per annum. A loss of £224 is sustained on the Sundry Debtors; and a discount of £30 is obtained from the Creditors. The latter were paid at an average date of four months, and the Debtors were realized at an average date of eight months from the date of dissolution. Helm paid Porter £550 on 1st March, £650 on 1st June, £750 on 1st September, and the balance on 31st December. Draw up the Account Current between Helm and Porter, and show the final payment made to Porter on 31st December.

20. R. Rostron and T. Teale are in partnership. On 1st January their Capitals were: Rostron, £3,750; Teale, £750. During the year they lost £1,070 without reckoning Interest on Capital, which, by the partnership deed, must be allowed at 5 per cent per annum. They share profits and losses 4/5ths and 1/5th. Their Drawings during the year were £620 and £350 respectively. Draw up the Profit and Loss and Capital Accounts as at 31st December.

21. Cowan, Bennett & Co. have made profits during the year of £2,650. The partnership consists of C. Cowan and B. Bennett, who are equal partners. On 1st January, Cowan's Capital was £5,450, and Bennett's £4,520. Bennett also brought in £1,000 on 31st March. Interest is to be allowed on Capital at 5 per cent per annum, and Bennett is entitled to a management salary of £300. Cowan is entitled to £500 per annum for Rent of the business premises, which are his own property. Draw up the Profit and Loss and Capital Accounts.

22. (*a*) The profits of the partnership of Austin, Bell & Cooper amounted, on 31st December, to £2,521 5s. On 1st January the Capitals of the partners were as follows: Austin, £6,250; Bell, £4,500; Cooper, £4,500. The partners' Drawings were: Austin, nil; Bell, £350; and Cooper, £350. Interest is to be allowed on Capital at 5 per cent per annum. Profits are divisible thus: Austin, 3/7ths; Bell and Cooper, 2/7ths each. Draw up the Profit and Loss and Capital Accounts.

(*b*) On 1st January following they agree to take into partnership P. Peters, with an eighth share of the profits. What amount must he bring in to entitle him to such a share on a par with the Capital of the others as at the previous 31st December, and what will be the new proportions for division?

23. A Partnership consists of three partners: T. Fisher, D. Green, and H. Gray. The Capitals of Fisher & Green on 1st January were £3,650 each. Gray had overdrawn and had £250 to his debit. On 30th June the profits for the half-year to date amounted to £1,256, and were divisible equally. The three partners had drawn £250 each; Gray had also drawn £65 extra on 31st March and £40 on 30th June. Draw up the Profit and Loss and Capital Accounts, allowing interest at 5 per cent per annum on Capitals and charging interest at the same rate on excess Drawings.

24. B joined A in partnership on 1st January, and is to have a half share of the profits. The partners' Capitals are to be equal, and their total capital is to be sufficient to convert the bank overdraft of £6,000 into a debit balance of £1,000. B pays A two years' purchase for his half share of the profits. The necessary transactions were carried through by the firm on 1st January. Show what entries would be made in the firm's books to record the transactions. (*Chartered Accountants.*)

25. M. Mason and B. Box decide to amalgamate their businesses as at 25th April. Their Balance Sheets are as follows—

M. Mason

Liabilities	£	*Assets*	£
Creditors	3,250	Cash in hand	50
Capital	20,500	,, at Bank	3,850
Profit and Loss	1,650	Debtors	6,500
		Stock	5,000
		Land and Buildings	10,000
	£25,400		£25,400

B. Box

Liabilities	£	*Assets*	£
Bank Overdraft	2,105	Cash	125
Creditors	1,895	Debtors	5,750
Capital	5,500	Stock	3,625
	£9,500		£9,500

Mason is to be credited with £3,500 for Goodwill, and Box with £750 Five per cent is to be reserved on all Debtors. Box's overdraft is to be paid off out of the private funds of Mason, who is to receive credit therefor. Make the necessary Journal entries, and show Balance Sheet as at commencement of business.

26. A, B, and C enter into partnership on 1st January. Each partner is to draw a like sum per annum for his services, and to share profits according to Capital, and according to the time the Capital is in the business. On 1st January, A pays in £5,000; on 1st April, B pays in £4 000; on 1st June, C pays in £4,000; on 1st November, A pays in a further £2,000. The net profits on 31st December amounted to £2,520. How much of the latter sum should each partner receive?

27. Johnson, Moore, Elliott & Graham are in partnership. After the annual accounts have been prepared and signed as at 31st December, it is discovered that interest on Capital at 5 per cent per annum has been inadvertently omitted. Instead of re-opening the books and altering the Balance Sheet, it is decided to make an adjusting entry at the beginning of the new year. The Capitals of the partners are: Johnson, £8,500; Moore, £5,500; Elliott, £5,500; Graham, £4,500; and profits are divisible thus: Johnson, ⅓rd; Moore, ¼th; Elliott, ¼th; Graham, ⅙th. Give the one Journal entry that would be required to adjust the above matter.

28. X and Y are in partnership. X has a capital of £8,000 and Y has a capital of £5,000. They agree to admit Z as a partner with £4,600, £1,300 of which is to be considered as payment for a share of the Goodwill, and to be credited to X and Y in proportion to their Capitals. How should the profits be divided in order that each partner shall receive a share proportionate to his Capital in the concern.

29. S. Simpson agreed to take W. Winder into partnership. Winder was to bring in £6,000. Of this, £2,205 was to be paid for a three-seventh's share of Simpson's profits, calculated at two years' purchase of their average amount, and the remainder was to be Winder's Capital. Simpson was to leave one-half of this purchase money in the concern, in order to make his Capital up to half as much again as that of Winder. What were Simpson's average profits, and what was his Capital before the partnership?

30. X retires from business and agrees to dispose of it to Y. The assets are: Plant, £2,500; Stock, £3,750; Debtors, £4,520. The liabilities, which are to be discharged by Y, are: Sundry Creditors, £3,750. Y brings in as his Capital, £3,500. The purchase money is to be paid by instalments of £1,000 each year, interest at 5 per cent per annum being charged on the unpaid balance. Y is also to pay £2,000 for Goodwill out of the profits, at the rate of one-fourth of the profits each year, after charging interest on the unpaid purchase money. No interest, however, is to be charged on the sums due for Goodwill. The profits for the next five years were as follows: 1st year, £1,750; 2nd year, £1,950; 3rd year, £2,050; 4th year, £2,500; 5th year, £2,065. Show the Profit and Loss Account, the Business Purchase Account, and the Goodwill Account, all up to the completion of the latter.

31. Cox, Mason, & Holding are in partnership, sharing profits and losses $\frac{1}{2}$, $\frac{1}{3}$, and $\frac{1}{6}$ respectively. Holding's share, however, is guaranteed by the other partners at a fixed minimum of £360. The net profits for the current year amount to £1,760. Show by means of an account what amount each partner will receive.

32. C. Carus and O. Kelly entered into partnership on 1st January without, however, drawing up any formal deed of partnership. Carus put in £3,050, and Kelly £2,050, as their Capitals respectively. On 1st March, Carus advanced £1,000 to the firm as a loan, but without any agreement as to interest thereon. On 31st December the net trading profits for the year amounted to £2,760. The partners are unable to agree on the following questions: (*a*) Interest on Loan; (*b*) Interest on Capital; (*c*) division of profits. Draw up a Profit and Loss Account showing how you would deal with these matters.

33. Hart, Capper, & Bonar are in partnership. On 1st January their Capitals were £3,500, £2,520, and £1,740 respectively. Interest at 5 per cent per annum is allowed on Capital, but no interest is chargeable on Drawings. Capper is entitled to a salary of £300 and Bonar to a salary of £250 per annum before division of profits. The partners' Drawings were £850, £650, and £450 respectively. The profit for the year ended 31st December after charging partners' Salaries, but before charging Interest on Capital, amounted to £2,050. The first £1,000 of divisible profit is to be shared thus: Hart 50 per cent; Capper, 30 per cent; Bonar, 20 per cent; the balance of profits is to be shared equally. Draw up the Profit and Loss Account and the Partners' Capital Accounts.

34. B. Bartle & W. West are in partnership, and their profits and losses for the last three years are: 1st year, Loss, £560; 2nd year: Profit, £2,749; 3rd year: Profit, £3,505. The above results are after charging Interest on Capital at 5 per cent per annum, Interest at 5 per cent per annum on Loan, £4,000 from F. Flynn (their manager), and the latter's salary of £450 per annum The partners' Capitals, which have not been touched, are: Bartle, £12,000; West, £8,000. Profits and Losses are divisible according to Capitals. At the end of the third year, Bartle & West agree to regard Flynn as having been a partner from the beginning, and to adjust the accounts accordingly. His Loan is to be treated as Capital, and he is to have a sixth share of the profits. Flynn's Loan, however, is to bear interest at 4 per cent instead of 5 per cent, and his salary is to be reduced to £350 per annum; both these alterations are to take effect over the past three years. What adjustments will be necessary to carry out the above arrangements?

35. Brown joins the firm of Smith and Jones, as a limited partner, and contributes £9,000 as his Capital on 31st March. The annual accounts are made up to the end of September following, and Brown's share of profit to that date is £675, which, with a further sum of £325 in Cash, he adds to his Capital in the firm. At the end of December he assigns two-fifths of his Capital to his eldest son, and two-fifths to four other children equally as limited partners. Show the several amounts of the Capital as thus divided, and state what is required to comply with the Limited Partnerships Act, 1907, on the above changes taking place. (*Chartered Accountants.*)

36. M and N are in partnership, sharing profits in equal portions. They decide to admit K as an equal partner with themselves. K is unable to contribute to the Capital, or pay any consideration for his share in the Goodwill of the firm. How do you propose adjusting matters in order that M and N do not suffer, or K benefit by K's inability to contribute to the partnership Capital, yet they shall each receive the same quota of the first year's profit.

37. A and B carry on business in partnership as Timber Merchants. They divide profits: A two-thirds, B one-third, and on 31st December their Balance Sheet was as follows—

Liabilities	£	*Assets*	£
Sundry Creditors and Bills Payable . . .	3,000	Leasehold Land and Buildings	2,000
Capital Accounts—		Plant and Machinery . .	1,800
A	4,000	Sundry Debtors and Bills Receivable . . .	2,500
B	2,000	Stock	2,100
		Cash at Bank and in hand .	600
	£9,000		£9,000

They agree to take C into partnership on 1st January. The profits are to be divided: A two-fifths, B two-fifths, C one-fifth. A is to be a limited partner, and B and C general partners. C is to pay in £1,000 as Capital. The assets of the business are to be taken over by the new firm on the following terms: Land and Buildings at £2,250, Plant and Machinery subject to 10 per cent deduction for depreciation. Sundry Debtors and Bills Receivable subject to an allowance of £500 to cover Bad Debts, Discounts, and cost of collection, Stock at £1,800. The new firm also takes over the liabilities of the old firm as shown in the above Balance Sheet. A agrees with B that any loss on the taking over of the assets by the new firm shall be borne by him (A). A's Capital as limited partner in the new firm is to be £3,000. B's Capital is to be £2,000. Open the books of the new firm, and make out the Balance Sheet as on 1st January, presuming C's Capital to have been paid in. (*Chartered Accountants.*)

REVISION EXERCISE X

1. Can you suggest any system in the book-keeping of a City Wholesale and Retail House which, while insuring strict accuracy, would avoid the trouble and labour of repeating detail? Give a Form of Cash Book and Petty Cash Book you would recommend, and introduce debit and credit items, including payments into the bank, and cheques drawn therefrom. (*London Chamber of Commerce.*)

2. Assuming you to be called in by A B and C D, on their contemplating entering into business in the Textile Trade, to advise them generally, and to lay down a proper system of accounts with a view to your taking charge of the Book-keeping and Finance, state briefly what course you would adopt, and what system you would lay down, so that each partner's interests would be protected and the financial success of the business secured. (*London Chamber of Commerce.*)

3. What are Bills of Lading, and what do you understand by the term "Drawing as against Bills of Lading"? (*London Chamber of Commerce.*)

4. John Nightingale, East Street, Sheffield, sells to the Low Moor Iron Co., on 4th March, 40 tons of Scotch Iron at 45s. per ton; 10th March, 100 tons of Swedish Iron at 44s. per ton; 19th March, 80 tons of Hematite Iron at 42s. per ton; and receives, 30th March, £200 on account, and on 2nd April, a Bill of Exchange at three months for £250.

(*a*) Make out an Invoice of the first transaction.

(*b*) A Statement of Account on 12th July; and

(*c*) Draw the B/E mentioned above, make it payable in Leeds, and write upon it an acceptance for payment at the Leeds Joint Stock Bank, Ltd.

(*d*) Note at the left-hand side the amount of Stamp Duty.

(*e*) Also rule a form of John Nightingale's Bill Book, and enter in it the particulars of this Bill.

What entries would appear in the Low Moor Iron Co.'s Books in respect of the B/E mentioned in the foregoing question? (*West Riding of Yorkshire.*)

5. What is the difference between—

(*a*) Consignment, and (*b*) Joint Adventure?

How would you deal with Consignments not completed at the date of balancing. (*National Union of Teachers.*)

6. Explain the difference (if any) between a "Revenue Account," an "Income and Expenditure Account," and a "Receipts and Payments Account." (*London Chamber of Commerce.*)

7. From the following particulars draw up an Account Current to be rendered by B. Boot to L. Lacey at 30th June, reckoning interest at 5 per cent per annum—

19..		
Jan.	1.	Balance owing by L. Lacey to B. Boot, £255 13s.
Feb.	10.	Cash received from Lacey, £120.
,,	23.	Goods bought of Lacey, £478 9s. 10d.
,,	25.	Boot accepted Lacey's draft @ 1 m/d for £200.
Mar.	10.	Cash paid to Lacey, £150.
Apl.	12.	Goods sold to Lacey, £391 1s., due 12th May.
May	19.	,, bought of Lacey, £226 19s. 4d.
June	8.	,, bought of Lacey, £113 9s. 2d.
,,	15.	Cash paid to Lacey, £100.
,,	20.	Goods sold to Lacey, £496 7s. 8d.
,,	25.	Cash received from Lacey, £200.

8. Received Consignment of Goods from B. Bowman, valued at £750. Paid cartage and expenses, £20. Sent Bowman bill at one month for £200 as an Advance. Sold part of Consignment to R. Brown for £350, part for Cash £350, and the remainder £300 took into stock for our own use. Charged Bowman 5 per cent Commission, and sent him sight draft for amount due.

Make the necessary Journal and Cash Book entries to record the above, and show Bowman's account in the Ledger.

9. The Sundry Debtors at 31st December are £5,721 15s. 8d. A Bad Debts Reserve of 5 per cent is required. The Bad Debts Reserve at 1st January was £267 14s. 11d., and the Bad Debts during the year amounted to £236 3s. 2d. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries for the above (both ways).

10. On 1st January the Reserve for Discount on Debtors was £156 16s. 6d. The Discounts Allowed during the year amounted to £164 8s. 10d. The Debtors at 31st December are £3,895 14s. 11d. A Bad Debts Reserve of 5 per cent is made, and a new Discount Reserve of 5 per cent is required. Show the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to discount (both ways).

11. Prepare a Trading Account, Profit and Loss Account, and Balance Sheet from the following Balances of X, Y, Z & Co.'s Books, extracted at 31st December, covering six months' operations.

	£
Cash at Bankers	2,640
Petty Cash in hand	3
Sales	16,123

	£
Stock in hand at commencement of period . . .	2,741
Returns (Customers' returns for the half-year) . .	330
Discount allowed to Customers	938
Bills Receivable in hand	182
Sundry Debtors	5,272
Purchases	8,403
Discount allowed on Purchases	390
Wages	1,404
Reserve for Bad and Doubtful Debts	540
,, for Discount on Book Debts	197
Sundry Creditors	1,970
Buildings	4,384
Patent Rights	50
Loan on Mortgage	4,500
Rent, Rates, and Taxes.	106
Advertising	463
Traveller's Salary	431
Carriage	394
Bad Debts Written off	101
Plant and Machinery	2,672
Repairs	84
C G—Capital Account Balance, 1st July	6,110
C G—Drawings Account	1,200
S G—Capital Account Balance, 1st July	2,952
S G—Drawings Account	720
Interest on Loans	124
Reserve Account. Patent Royalties received in advance .	500
Royalties on Patents, attributable to the half year to 31st December . . . . Cr.	40
Trade and General Expenses	502
Depreciation written off Buildings	23
,, ,, ,, Plant	155
Stock-in-trade, 31st December	3,275

Profits to be apportioned—C G, $\frac{5}{8}$; S G, $\frac{3}{8}$.

(*Chartered Accountants.*)

CHAPTER XI

DISSOLUTION OF PARTNERSHIP

When is a Partnership Dissolved? Subject to any agreement between the partners, a partnership is dissolved—

(*a*) If entered into for a fixed term, by the expiration of that term.

(*b*) If entered into for a single adventure or undertaking, by the termination of that adventure or undertaking.

(*c*) If entered into for an undefined time, by any partner giving notice to the other or others of his intention to dissolve the partnership.

In the last-mentioned case the partnership is dissolved as from the date mentioned in the notice as the date of dissolution, or, if no date is so mentioned, as from the date of the communication of the notice.

Dissolution by Bankruptcy, Death, Charge, or Illegality. Subject to any agreement between the partners, every partnership is dissolved as regards all the partners by the death or bankruptcy of any partner.

A partnership may, at the option of the other partners, be dissolved if any partner suffers his share of the partnership property to be charged under the Partnership Act for his separate debt.

A partnership is in every case dissolved by the happening of any event which makes it unlawful for the business of the firm to be carried on or for the members of the firm to carry it on in partnership.

Dissolution by the Court. On application by a partner the Court may decree a dissolution of the partnership in any of the following cases—

(*a*) When a partner is found lunatic by inquisition, or in Scotland by cognition, or is shown to the satisfaction of the Court to be of permanently unsound mind, in either of which cases the application may be made as well on behalf of that partner by his committee or next friend or person having title to intervene as by any other partner.

(*b*) When a partner, other than the partner suing, becomes in any other way permanently incapable of performing his part of the partnership contract.

(*c*) When a partner, other than the partner suing, has been guilty of such conduct, as in the opinion of the Court, regard being had to the nature of the business, is calculated to affect prejudicially the carrying on of the business.

(*d*) When a partner, other than the partner suing, wilfully or persistently commits a breach of the partnership agreement, or otherwise so conducts himself in matters relating to the partnership business that it is not reasonably practicable for the other partner or partners to carry on the business in partnership with him.

(*e*) When the business of the partnership can only be carried on at a loss.

(*f*) Whenever in any case circumstances have arisen which, in the opinion of the Court, render it just and equitable that the partnership be dissolved.

Notice of Dissolution or Change. Where a person deals with a firm after a change in its constitution, he is entitled to treat all apparent members of the old firm as still being members of the firm until he has notice of the change.

"An advertisement in the *London Gazette* as to a firm whose principal place of business is in England or Wales, in the *Edinburgh Gazette* as to a firm whose principal place of business is in Scotland, and in the *Dublin Gazette* as to a firm whose principal place of business is in Ireland, shall be notice as to persons who had no dealings with the firm before the date of the dissolution or change so advertised." (Partnership Act.)

N.B. Consequent on the establishment of the Irish Free State, and a separate government for Northern Ireland, there are now two Irish Gazettes for these political divisions, the *Dublin Gazette* and the *Belfast Gazette.*

Continuing Authority of Partners for Winding-up Purposes. After the dissolution of a partnership the authority of each partner to bind the firm, and the other rights and obligations of the partners continue notwithstanding the dissolution so far as may be necessary to wind up the affairs of the partnership, and to complete transactions begun but unfinished at the time of the dissolution.

Provided that the firm is in no case bound by the acts of a partner who has become bankrupt; but this proviso does not affect the liability of any person who has after the bankruptcy represented himself or knowingly suffered himself to be represented as a partner of the bankrupt.

Rule for Distribution of Assets. By Section 44 of the Partnership Act, 1890, in settling accounts between the partners after a dissolution of partnership, the following rules must, subject to any agreement, be observed—

(*a*) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits.

(*b*) The assets of the firm including the sums, if any, contributed by the partners to make up losses or deficiencies of capital, shall be applied in the following manner and order—

(1) In paying the debts and liabilities of the firm to persons who are not partners therein.

(2) In paying to each partner *rateably* what is due from the firm to him for advances as distinguished from capital.

(3) In paying to each partner *rateably* what is due from the firm to him in respect of capital.

(4) The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible.

Formula for Treatment of a Dissolution of Partnership. For making the necessary entries in the books in connection with an ordinary dissolution of partnership, the following formula will prove useful to the student.

1. Open a Realization Account and debit it with the total of the assets (except Cash or a debit balance of any of the partners' Capital Accounts).

2. Open accounts for Cash, Creditors, Partners' Loans, Partners' Capitals, and enter therein the balances as per the Balance Sheet.

3. Debit Cash and credit Realization Account with the proceeds of sale of the assets. If any of the assets are not sold but are taken over by one of the partners, then debit that partner's Capital Account and credit Realization Account with the agreed value.

4. Credit Cash and debit Realization Account with the expenses of winding up.

5. Pay off (*a*) Creditors, (*b*) Partners' Loans, i.e. credit Cash and debit these accounts.

6. Balance the Realization Account and transfer the balance, profit or loss as the case may be, to the partners' Capital Accounts. If, as the result of a loss on realization, the Capital Account of one of the partners is put temporarily in debit, that partner must bring in cash to repay to the firm his indebtedness; debit Cash and credit partner's Capital Account. The deficiency may also be made good by transfer from such partner's Loan Account, if he has one.

7. Balance Partners' Capital Accounts and divide the cash according to these credit balances of Capital.

NOTE. Students often divide the cash between the partners in the same proportion as *profits and losses*, but this is quite wrong. The debit balance of cash at the close must be equal to the *total* of the credit balances of the Capital Accounts; and the cash paid out to each partner must be *the amount standing to the credit of his Capital Account*, no more, no less.

Garner *v*. Murray. Whenever a partner is unable to repay to the firm his indebtedness, the ruling of Garner *v*. Murray must be applied. This decision by Mr. Justice Joyce, in November, 1903, was " that the solvent partners are only liable to make good their share of the deficiency, and that the remaining assets should be divided among them in proportion to their capitals." In other words, the loss caused by the default of an insolvent partner is to be borne in proportion to *capital*, and not in the proportion that ordinary losses are to be borne. After considerable discussion and controversy, it is thought that the correct interpretation of this ruling is for the solvent partners *to bring in cash* to meet their share of the loss on realization.

For the benefit of accountancy students it may, perhaps, be as well to give a short summary of the *Garner* v. *Murray* case, and of the great controversy to which it gave rise amongst professional accountants.

Garner, Murray, and Wilkins entered into partnership under a parol agreement to contribute capital in certain unequal shares but to divide profits equally. On dissolution the assets realized sufficient to pay the creditors

and advances of two of the partners, but were insufficient to repay the partners' capitals. The position was approximately as follows—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Capital Accounts—				Cash	1,916	–	–
Garner	2,500	–	–	Wilkins—Overdrawn . .	263	–	–
Murray	314	–	–	Deficiency of Firm . .	635	–	–
	£2,814	–	–		£2,814	–	–

Wilkins was insolvent, and unable to contribute anything. Mr. Justice Joyce held that a loss arising through the default of one of the partners must be distinguished from an ordinary trading loss or loss on realization. That, provided outside creditors' claims had been met, the liability of each separate partner was limited to making good *his* share of the deficiency. That, in the case in question, each partner should be treated as liable to contribute an equal third share of the deficiency, and that the assets should then be applied in paying each partner rateably what was due to him in respect of capital.

The decision caused great surprise in accountancy circles, which had not previously discriminated between an *internal* and an *external* loss, i.e. between a loss occasioned by the default of a partner, and an ordinary trading loss. As previously explained, under the old method the £263 would have been added to the £635, and the total loss of £898 would have been borne by the solvent partners in the same *relative* proportions in which they had previously shared profits, namely, 1 : 1, or one-half each. The effect of Mr. Justice Joyce's decision, however, was that the £635 should be shared by *all* the partners in the same way that they shared ordinary profits and losses, i.e. one-third each; but that Wilkins's £263 and share of deficiency should be borne by the solvent partners in the proportion of their capitals. For although the solvent partners are not liable to "make good" the insolvent partner's overdraft and share of deficiency, yet inasmuch as his default causes a deficiency of assets, it follows that the solvent partners actually *bear* the loss of this amount. And as this loss represents a deficiency of cash, it follows that the solvent partners bear this loss of cash in the same proportion in which they share the actual cash, namely, in proportion to their capital, i.e. in the ratio which each partner's capital bears to the total capital of the partners. This can be plainly seen from the worked example on page 347.

The decision occasioned much comment and discussion, which finally developed into a sharp controversy, raging chiefly round the precise meaning of the judge's words, "making good his share of the deficiency." Many accountants contended it meant that the solvent partner should bring in cash; others contended this was unnecessary, so long as there was a sufficient credit balance in his Capital Account to liquidate his share of the firm's deficiency. The arguments and counter-arguments are as follows—

1. The solvent partners should bring in cash, which should be debited to Cash Account and credited to the Deficiency Account, thus actually carrying out the letter of the law, and "making good" their shares of the deficiency. The arguments against this course are: (1) that it is unreasonable to ask a partner to bring in cash when he already has a credit balance in his Capital Account; (2) that it might be impossible, as the partner might have sunk the whole of his capital in the business; (3) that it is quite contrary to accountancy practice in other cases, where, if the result of a realization is to place a partner's account in debit, such deficit is often made good by transfer from his Current Account, and even from his Loan Account if he has one. In reply,

it is urged that these objections are not points of equity but merely sentimental reasons and questions of convenience, which do not invalidate the argument that this method fulfils the letter of the law.

2. The solvent partners should have their shares of the deficiency debited to their Capital Accounts. In opposition to this course it is contended (1) that debiting a loss to capital is not making it good; (2) that the Capital Accounts as per last Balance Sheet represent the partners' agreed shares of such capital, and are, according to the judgment, to form the basis for distribution of the assets; (3) that to debit the shares of deficiency to the Capital Accounts would alter the Capital Accounts and destroy the basis for the distribution of the assets; (4) that this flaw in fulfilling the conditions of the judgment vitiates this method.

3. The solvent partners should be shown on the Balance Sheet as debtors for their shares of the deficiency. This would prevent the Capital Accounts being altered. The objections raised to this course are (1) that it is an attempt to carry out the judgment by means of a paper entry instead of an actual contribution; (2) that in the case of fixed capitals a partner who had a credit balance in his Current Account could offset it against this debit, and thus render this method futile.

1. Profit on Realization

Example. Long and Short are in partnership, sharing profits and losses two-thirds and one-third respectively. The state of affairs at the date of dissolution is as follows—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors	2,750	–	–	Cash	725	–	–
Capital A/cs—				Sundry Debtors	2,168	–	–
Long	3,540	–	–	Stock	4,029	–	–
Short	2,107	–	–	Fixtures and Fittings	1,475	–	–
	£8,397	–	–		£8,397	–	–

The Fixtures and Fittings are taken over by Long at the agreed price of £1,425. The Debtors and Stock realize £7,265, and the expenses of winding up are £115. Close the books of the firm, showing the Ledger Accounts.

Dr. REALIZATION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Sundry Assets	7,672	–	–	By Cash	7,265	–	–
„ Cash (Expenses)	115	–	–	„ Long (Capital A/c). Fixtures taken over as agreed	1,425	–	–
„ Balance (profit)— Long ⅔, £602; Short ⅓, 301	903	–	–				
	£8,690	–	–		£8,690	–	–

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To Balance . . .	725	–	–	By Realization A/c (Expenses)	115	–	–
„ Realization A/c— Proceeds of Sale of Assets . . .	7,265	–	–	„ Sundry Creditors . .	2,750	–	–
				„ Balance— Long . . .	2,717	–	–
				Short . . .	2,408	–	–
	£7,990	–	–		£7,990	–	–

Dr. SUNDRY CREDITORS *Cr.*

	£	s.	d.		£	s.	d.
To Cash . . .	2,750	–	–	By Balance . .	2,750	–	–

Dr. LONG.—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Fixtures, etc. .	1,425	–	–	By Balance . .	3,540	–	–
„ Cash . . .	2,717	–	–	„ Realization A/c— ⅔ Profit . .	602	–	–
	£4,142	–	–		£4,142	–	–

Dr. SHORT.—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Cash . .	2,408	–	–	By Balance . .	2,107	–	–
				„ Realization A/c— ⅓ Profit . .	301	–	–
	£2,408	–	–		£2,408	–	–

2. Loss on Realization

Example. Topping and Bottomly are in partnership, sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors . .	3,344	–	–	Cash	638	–	–
Topping (Loan Account) .	1,200	–	–	Sundry Debtors . .	3,146	–	–
Capital Accounts—				Stock	4,285	–	–
Topping . . .	4,025	–	–	Fixtures and Fittings .	1,275	–	–
Bottomly . . .	2,275	–	–	Goodwill	1,500	–	–
	£10,844	–	–		£10,844	–	–

The Debtors, Stock, Fixtures and Fittings realize £8,426, and the expenses of winding up are £132. During the realization, events actualize a contingent liability of £125, which has, therefore, to be paid in addition to the other Creditors. Close the books of the firm, showing the Ledger Accounts.

Dr. REALIZATION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Sundry Assets	10,206	-	-	By Cash (Proceeds of Sale of Assets)	8,426	-	-
" Cash (Expenses)	132	-	-	" Balance (loss)— Topping ⅔, £1,358; Bottomly ⅓, 679	2,037	-	-
" Cash (Contingent Liability)	125	-	-				
	£10,463	-	-		£10,463	-	-

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To Balance	638	-	-	By Realization A/c (Expenses)	132	-	-
" Realization A/c— Proceeds of Sale of Assets	8,426	-	-	" Realization A/c (Contingent Liability)	125	-	-
				" Sundry Creditors	3,344	-	-
				" Topping (Loan A/c)	1,200	-	-
				" Balance— Topping	2,667	-	-
				Bottomly	1,596	-	
	£9,064	-	-		£9,064		-

Dr. SUNDRY CREDITORS *Cr.*

	£	s.	d.		£	s.	d.
To Cash	3,344	-	-	By Balance	3,344	-	-

Dr. TOPPING—LOAN ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Cash	1,200	-	-	By Balance	1,200	-	-

Dr. TOPPING.—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Realization A/c, ⅔ Loss	1,358	-	-	By Balance	4,025	-	-
" Cash	2,667	-	-				
	£4,025	-	-		£4,025	-	-

Dr. BOTTOMLY.—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Realization A/c, ⅓ Loss	679	-	-	By Balance	2,275	-	-
" Cash	1,596	-	-				
	£2,275	-	-		£2,275	-	-

3. Loss on Realization, necessitating the partners bringing in cash to meet the deficits, and so enabling the creditors to be paid in full.

Example. High and Lowe are in partnership sharing profits

and losses three-fifths and two-fifths respectively. At the date of dissolution their capitals are High £765, and Lowe £430. The Creditors amount to £2,750. The balance of Cash in hand is £76, while the other assets realize £2,543, the expenses of winding up being £54. The partners bring in cash to meet their respective deficits. Close the books of the firm, showing the Ledger Accounts.

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To Balance	76	–	–	By Realization A/c (Expenses)	54	–	–
" Realization A/c (Proceeds of Sale of Assets)	2,543	–	–	" Sundry Creditors	2,750	–	–
" High, Capital A/c (Cash brought in)	63	–	–				
" Lowe, Capital A/c (Cash brought in)	122	–	–				
	£2,804	–	–		£2,804	–	–

Dr. REALIZATION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Sundry Assets	3,869	–	–	By Cash (Proceeds of Sale)	2,543	–	–
" Cash (Expenses)	54	–	–	" Capital A/cs (loss)— High $\frac{3}{5}$, £828; Lowe $\frac{2}{5}$, 552	1,380	–	–
	£3,923	–	–		£3,923	–	–

Dr. SUNDRY CREDITORS *Cr.*

	£	s.	d.		£	s.	d.
To Cash	2,750	–	–	By Balance	2,750	–	–

Dr. HIGH.—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Realization A/c ($\frac{3}{5}$ of Loss)	828	–	–	By Balance	765	–	–
				" Cash	63	–	–
	£828	–	–		£828	–	–

Dr. LOWE.—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Realization A/c ($\frac{2}{5}$ of Loss)	552	–	–	By Balance	430	–	–
				" Cash	122	–	–
	£552	–	–		£552	–	–

Note. With this example the student finds himself confronted at the outset with the difficulty of ascertaining the book value of the Assets that were sold. Such a difficulty often presents itself in connection with examination work. It is solved as follows: The total of the Liabilities side of the Balance Sheet was £3,945 (£765 + £430 + £2,750). Inasmuch as the two sides of the

Balance Sheet equal each other, the total value of the Assets must have been £3,945; and since the Cash in hand was £76, the book value of the other Assets must have amounted to £3,869 (£3,945 less £76).

4. A Loss on Realization, some partners being solvent and some insolvent, necessitating the rule of Garner *v.* Murray being applied.

Example. A, B, and C are in partnership, sharing profits and losses three-sixths, two-sixths, and one-sixth respectively. The state of affairs at the date of dissolution is as follows—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors	3,875	–	–	Cash	986	–	–
A (Loan A/c)	250	–	–	Sundry Debtors	3,056	–	–
Capital A/cs—				Stock	1,844	–	
A	1,520	–	–	Fixtures and Fittings	720	–	–
B	1,120	–	–	C, Capital A/c (Dr. balance)	159	–	–
	£6,765	–	–		£6,765	–	–

The assets other than Cash realized £4,844, and the expenses of winding up are £52. A and B are solvent, but C is unable to bring in anything. Make the necessary adjustments, and draw up a Balance Sheet showing the position of affairs before applying the Garner *v.* Murray rule, after which close the books of the firm showing the Ledger Accounts.

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To Balance	986	–	–	By Realization A/c (Expenses)	52	–	–
" Realization A/c (Proceeds of Sale of Assets)	4,844	–	–	" Sundry Creditors	3,875	–	–
" Deficiency A/c (Cash brought in)—				" A (Loan A/c)	250	–	–
A	414	–	–	" Balance c/d	2,343	–	–
B	276	–	–				
	£6,520	–	–		£6,520	–	–
To Balance b/d	2,343	–	–				

Dr. REALIZATION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Sundry Assets	5,620	–	–	By Cash (Proceeds of Sale)	4,844	–	–
" Cash (Expenses)	52	–	–	" Deficiency A/c (transfer)—			
				A 3/6 . . £414			
				B 2/6 . . 276			
				C 1/6 . . 138	828	–	–
	£5,672	–	–		£5,672	–	–

Dr. SUNDRY CREDITORS Cr.

	£	s.	d.		£	s.	d.
To Cash . . .	3,875	–	–	By Balance . .	3,875	–	–

Dr. A.—LOAN ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Cash . . .	250	–	–	By Balance . .	250	–	–

Dr. DEFICIENCY ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Realization A/c, loss b/f . .	828	–	–	By Cash—			
				A	414	–	–
				B	276	–	–
				„ Balance c/d .	138	–	–
	£828	–	–		£828	–	–
To Balance b/d .	138	–	–				

The position of affairs before the solvent partners paid in their shares of the firm's deficiency was as follows—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Capital A/cs—				Cash	1,653	–	–
A	1,520	–	–	C—Overdrawn . . .	159	–	–
B	1,120	–	–	Deficiency of Firm (loss on Realization) . . .	828	–	–
	£2,640	–	–		£2,640	–	–

which subsequently becomes—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*		£	s.	d.
Capital A/cs—				Cash . . .		2,343	–	–
A	1,520	–	–	C—				
B	1,120	–	–	Capital A/c Overdrawn .	£159			
				Share of Deficiency .	138			
						297	–	–
	£2,640	–	–			£2,640	–	–

Applying the Garner *v.* Murray rule, the solvent partners will receive and lose the following amounts—

Partners	Receive	Lose
A . . .	$\frac{1520}{2640}$ of £2,343 = £1,349	$\frac{1520}{2640}$ of £297 = £171
B . . .	$\frac{1120}{2640}$ of £2,343 = £ 994	$\frac{1120}{2640}$ of £297 = £126

And the Ledger Accounts will be as follows—

Dr. A.—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Cash	1,349	-	-	By Balance	1,520	-	-
" Transfer from C's A/c	171	-	-				
	£1,520	-	-		£1,520	-	-

Dr. B.—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Cash	994	-	-	By Balance	1,120	-	-
" Transfer from C's A/c	126	-	-				
	£1,120	-	-		£1,120	-	-

Dr. C.—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s	d.
To Capital A/c (Overdrawn)	159	-	-	By Transfer to— A, Capital A/c	171	-	-
" Share of Firm's Deficiency	138	-	-	B, Capital A/c	126	-	-
	£297	-	-		£297	-	-

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To Balance	2,343	-	-	By Capital A/cs—			
				A	1,349	-	-
				B	994	-	-
	£2,343	-	-		£2,343	-	-

Procedure prior to Garner *v.* Murray Decision. Prior to the Garner *v.* Murray decision, it was thought that the amount overdrawn by the insolvent partner, together with his share of the firm's deficiency constituted a loss to be treated like ordinary partnership trading losses, i.e. to be borne by the solvent partners in the same *relative* proportions in which they shared profits. For the sake of illustration consider the previous example, the Balance Sheet of which would have appeared as follows—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.	£	s.	d.
Capital A/cs—				Cash				2,343	-	-
A	1,520	-	-	C. Capital—						
B	1,120	-	-	Overdrawn	159	-	-			
				Share of Deficiency	138	-	-			
								297	-	-
	£2,640	-	-					£2,640	-	-

A and B share profits in the ratio of 3: 2, and would therefore bear the loss of the £297 in the proportions of three-fifths and two-fifths. Thus, the final result would have been as under—

BALANCE SHEET

Liabilities	£	s.	d.	£	s.	d.	*Assets*	£	s.	d.
Capital Accounts—							Cash . . .	2,343	–	–
A . . .	1,520	–	–							
Less ⅗ of £297 .	178	4	–							
				1,341	16	–				
B . . .	1,120	–	–							
Less ⅖ of £297 .	118	16	–							
				1,001	4	–				
				£2,343	–	–		£2,343	–	–

Present Differences of Opinion *re* Garner *v*. Murray Decision. Many accountants do not even now admit the solvent partners' obligation to bring in cash to make good their shares of the firm's deficiency. They merely bring the partners' contributions *into account*, i.e. assume these amounts to be part of the cash available. It makes no difference to the final answer, as can be seen from the following, which represents their method of working the example in question. The position of affairs after realization was as follows—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Capital Accounts—				Cash	1,653	–	–
A	1,520	–	–	C.—Capital—Overdrawn .	159	–	–
B . . .	1,120	–	–	Deficiency of Firm (Loss on Realization) . . .	828	–	–
	£2,640	–	–		£2,640	–	–

Bringing the contributions into account, we arrive at the following position—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*		£	s.	d.
Capital Accounts—				Cash		1,653	-	-
A	1,520	–	–	A's Contribution to Deficiency, ⅜ of £828		414	–	–
B	1 120	–	–	B's Contribution to Deficiency, ⅜ of £828		276	–	–
						2,343	–	–
				C—Overdrawn . .	£159			
				Share of Deficiency, ⅙ of £828 . .	138			
						297	–	–
	£2,640	–	–			£2,640	–	–

The amount of cash available has now been determined, and must be applied to the repayment of the partners' capitals *pro rata.* The final statement showing how much each partner will receive is, therefore, as under—

FINAL STATEMENT

	£	s.	d.		£	s.	d.
Amounts due to Partners in respect of Capital—				Cash	1,653	-	
A—							
$\frac{1620}{2820}$ of £2,343 = £1,349							
Less Contribution due . . 414	935	-	-				
B—							
$\frac{1200}{2820}$ of £2,343 = £994							
Less Contribution due . . 276	718	-	-				
	£1,653	-	-		£1,653	-	-

5. **A Loss on Realization, and all the partners insolvent, the Creditors being paid a dividend.**

Example. Jones and Brown are in partnership, sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors .	6,270	-	-	Cash	405	-	-
Capital Accounts—				Sundry Debtors . .	2,342	-	-
Jones . . .	2,100	-	-	Stock	2,070	-	-
Brown . . .	1,200	-	-	Fixtures and Fittings .	1,486	-	-
				Goodwill . . .	3,267	-	-
	£9,570	-	-		£9,570	-	-

The Assets other than Cash realize £4,465, and the expenses of winding up are £176. Close the books of the firm.

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To Balance . . .	405	-	-	By Realization A/c (Expenses)	176	-	-
„ Realization A/c— (Proceeds of Sale of Assets) . . .	4,465	-	-	„ Sundry Creditors— Dividend of approx. 14s. 11¾d. in the £ on £6,270 . . .	4,694	-	-
	£4,870	-	-		£4,870	-	-

Dr. REALIZATION ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Sundry Assets .	9,165	–	–	By Cash (Proceeds of Sale) . .	4,465	–	–
„ Cash (Expenses) .	176	–	–	„ Balance (loss carried to Profit and Loss A/c) .	4,876	–	–
	£9,341	–	–		£9,341	–	–

Dr. SUNDRY CREDITORS Cr.

	£	s.	d.		£	s.	d.
To Cash (Dividend of approx. 14s. 11⅔d. in £) .	4,694	–	–	By Balance . .	6,270	–	–
„ Balance transferred to Profit and Loss A/c .	1,576	–	–				
	£6,270	–	–		£6,270	–	–

Dr. PROFIT AND LOSS ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Realization A/c—(balance brought forward) . .	4,876	–	–	By Balance from Sundry Crs. A/c	1,576	–	–
				„ Capital A/cs— Jones ⅔ £2,200 Brown ⅓ 1,100	3,300	–	–
	£4,876	–	–		£4,876	–	–

Dr. JONES.—CAPITAL ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Profit and Loss A/c . . .	2,200	–	–	By Balance . .	2,100	–	–
				„ Balance c/d .	100	–	–
	£2,200	–	–		£2,200	–	–
To Balance b/d .	100	–	–	By Brown Capital A/c (transfer) .	100	–	–

Dr. BROWN.—CAPITAL ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Profit and Loss A/c	1,100	–	–	By Balance .	1,200	–	–
„ Balance c/d .	100	–	–				
	£1,200	–	–		£1,200	–	–
To Jones Capital A/c (transfer) . .	100	–	–	By Balance b/d .	100	–	–

NOTE. In this case a Profit and Loss Account is opened, debited with the loss on realization, and credited with the unpaid balance of the Creditors' Account, which makes a paper profit. The balance of the Profit and Loss Account is carried to the Capital Accounts in the usual way. The Capital Accounts are then closed by transfer of their corresponding but opposite balances.

Alternative Form of Realization Account. In some cases, the Asset Accounts are not closed by transfer to a Realization Account, being left open. The cash received for the assets is debited in the Cash Book and credited to the various Asset Accounts, the balances of which, representing either gains or losses, are carried to a Realization Profit and Loss Account. The actual gain or loss on each asset is thus easily perceived.

Example. Smith and Roff are equal partners in a retail concern. They decide to retire, and sell their business on 31st December, the position of affairs on this date being as follows—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors	720	–	–	Cash at Bank	620	–	–
Capital Accounts—				Sundry Debtors	1,670	–	–
Smith	3,500	–	–	Stock-in-trade	2,480	–	–
Roff	2,500	–	–	Lease	1,300	–	–
				Fixtures and Fittings	650	–	–
	£6,720	–	–		£6,720	–	–

The Lease was sold for £1,650, Fixtures and Fittings for £725, and Stock for £2,450. The Book Debts realized only £1,550, £45 being allowed for discount. The creditors were paid £700 in full settlement. The expenses of winding up were £55. Close the books of the firm, showing the result of the realization, and detailing the various Ledger Accounts. Show also the payment to each partner of the amount actually due to him.

Dr. LEASE *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance	1,300	–	–	Dec. 31	By Cash	1,650	–	–
Dec. 31	„ Realization A/c (gain)	350	–	–					
		£1,650	–	–			£1,650	–	–

Dr. FIXTURES AND FITTINGS *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance	650	–	–	Dec. 31	By Cash	725	–	–
Dec. 31	„ Realization A/c (gain)	75	–	–					
		£725	–	–			£725	–	–

Dr. SUNDRY DEBTORS *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance	1,670	–	–	Dec. 31	By Cash	1,550	–	–
					„ 31	„ Discount	45	–	–
					„ 31	„ Bad Debts	75	–	–
		£1,670	–	–			£1,670	–	–

Dr. STOCK Cr.

		£	s.	d.			£	s.	d.
19— Jan. 1	To Balance .	2,480	-	-	19— Dec. 31	By Cash .	2,450	-	-
					" 31	" Realization A/c (loss) .	30	-	-
		£2,480	-	-			£2,480	-	-

Dr. SUNDRY CREDITORS Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Cash .	700	-	-	19— Jan. 1	By Balance .	720	-	-
" 31	" Discount .	20	-	-					
		£720	-	-			£720	-	-

Dr. BAD DEBTS Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Sundry Debtors	75	-	-	19— Dec. 31	By Realization A/c (loss) .	75	-	-

Dr. DISCOUNTS RECEIVED Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Realization A/c (gain) .	20	-	-	19— Dec. 31	By Sundry Crs. .	20	-	-

Dr. DISCOUNTS ALLOWED Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Sundry Drs. .	45	-	-	19— Dec. 31	By Realization A/c (loss) .	45	-	-

Dr. REALIZATION PROFIT AND LOSS ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	*Losses*				19—	*Gains*			
	To Stock .	30	-	-	Dec. 31	By Lease .	350	-	-
	" Discounts allowed .	45	-	-	" 31	" Fixtures and Fittings .	75	-	-
	" Bad Debts .	75	-	-	" 31	" Discounts Received .	20	-	-
	" Cash (Expenses) .	55	-	-					
	" Capital A/cs (net gain)— Smith ½ £120 Roff ½ 120	240	-	-					
		£445	-	-			£445	-	-

Dr. SMITH.—CAPITAL ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Cash . .	3,620	-	-	19— Jan. 1	By Balance . .	3,500	-	-
					Dec. 31	" Realization A/c (½ profit) .	120	-	-
		£3,620	-	-			£3,620	-	-

Dr. ROFF.—CAPITAL ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Cash	2,620	-	-	19— Jan. 1	By Balance	2,500	-	-
					Dec. 31	„ Realization A/c (½ profit)	120	-	-
		£2,620	-	-			£2,620	-	-

Dr. CASH BOOK Cr.

	£	s.	d.			£	s.	d.
To Balance	620	-	-	By Sundry Creditors		700	-	-
„ Lease	1,650	-	-	„ Realization A/c (Expenses of Winding up)		55	-	-
„ Fixtures and Fittings	725	-	-	„ Capital A/cs—				
„ Sundry Debtors	1,550	-	-	Roff	£2,620			
„ Stock	2,450	-	-	Smith	3,620			
						6,240	-	-
	£6,995	-	-			£6,995	-	-

QUESTIONS ON CHAPTER XI

1. In what three ordinary ways may a partnership be dissolved?
2. Explain what effect the following have upon the duration of a partnership: (*a*) Bankruptcy; (*b*) death; (*c*) charge; (*d*) illegality.
3. In what six cases can a dissolution of partnership be decreed by the Court?
4. What notice must be given to creditors and others when a dissolution or change of partnership takes place?
5. Explain what is meant by the "continuing authority of partners for winding-up purposes."
6. State the legal rule for adjusting losses, and distributing assets, on the dissolution of a partnership, where no agreement to the contrary exists.
7. Submit a formula for dealing in the books with an ordinary dissolution of partnership.
8. When the result of a dissolution is to place a partner's Capital Account temporarily in debit, what is that partner's duty with reference to same?
9. Explain briefly the *Garner* v. *Murray* decision, and the consequent treatment of accounts in the books.
10. When, on a dissolution of partnership, the assets realize only sufficient to pay the creditors a dividend, how are the accounts in the books closed?

EXERCISE XI

1. Messrs. Black & White were equal partners in a retail boot shop. They decided to retire and dispose of their business as on 31st December. At the close of the year their Balance Sheet was as follows—

BALANCE SHEET

	£		£
B. Black, Capital A/c	3,050	Lease	1,250
W. White „	960	Fixtures	220
Sundry Creditors	480	Sundry Debtors	840
		Stock	2,060
		Cash at Bank	120
	£4,490		£4,490

The Lease and Fixtures were disposed of for £2,700, and the cash duly received. The Book Debts were collected, and realized £752. The stock was sold by auction, and produced £1,340 after payment of commission and expenses. The Sundry Creditors were paid off, £38 being allowed for discount. The expenses of realization amounted to £87.

As book-keeper to the firm, prepare whatever accounts may be necessary to show the result of the realization and the amount receivable by each partner. (*London Chamber of Commerce.*)

2. Black & White are equal partners, and their Balance Sheet stands as follows—

Assets: Cash, £400; Debtors, £2,000; Stock, £1,500; Machinery, £2,000.

Liabilities: Creditors, £1,800; Black's Capital, £2,900; White's Capital, £1,200.

They decide to dissolve partnership, and the assets realize the following amounts: Debtors, £1,880; Stock, £1,200; Machinery, £1,800. They receive £100 as Discounts from Creditors, and the expenses of realization amount to £230. Prepare Ledger Accounts showing the result of the winding up. (*National Union of Teachers.*)

3. Black & White have been in business together for three years ending 31st December, at which date they agree to dissolve partnership. Black takes over the business and agrees to pay White £1,800 for his share of the Goodwill.

Black has drawn out £500 each year and White £650 each year. Black's capital at the start was £3,000 and White's £4,000.

The profits of each year were £1,000, £1,200, and £1,350 respectively. There was no deed of partnership and no arrangement as to interest on Capital. Draft Capital Accounts (in White's show the amount he will receive on going out), Profit and Loss Account in Black & White's books, and Goodwill Account in Black's books. (*National Union of Teachers.*)

4. The position of a business firm is as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Creditors	2,020	Cash at Bank	1,530
Capital Accounts—		Debtors	2,466
Robinson	3,120	Stock	3,754
Larkin	2,760	Goodwill	2,300
Sparrow	2,150		
	£10,050		£10,050

The partnership is dissolved, the assets realized, and the creditors duly discharged. What will be the share of each partner.

(*a*) If the assets realize their book value, and the partners share profits equally?

(*b*) If the Debtors realize £2,400; Stock, £3,800; Goodwill, £2,500; and partners share profits in the proportions of 5, 4, and 3?

(*c*) If the Debtors realize £2,200; Stock, £3,198; and partners share profits equally?

5. Hawker & Haigh are in partnership, sharing profits and losses ⅞ths and ⅛th respectively. They dissolve partnership, and their Capitals on this date are: Hawker, £3,700; and Haigh, £550. The total liabilities of the firm

amount to £6,000; which sum includes £1,500 due to Hawker for Advances, and £250 due to Haigh for Advances. The assets of the firm realize net £7,230. Draw up accounts showing the final result of the realization and the amounts receivable by the partners respectively.

6. Rogers & Hawley are in partnership, sharing profits and losses $\frac{5}{8}$ths and $\frac{3}{8}$ths respectively. Rogers' Capital is £8,500 and Hawley's is £5,500. The partnership is dissolved and the assets realized with the following results—

	£		£
Debtors	9,020	produced	8,835
Stock	4,650	„	4,460
Plant and Machinery . .	3,850	„	3,700
Lease	2,000	„	2,000

The expenses of winding up were £110. Out of the Cash at Bank, together with the sum realized by the assets, the Creditors' claims amounting to £7,520 were duly discharged. Draw up the necessary accounts to show the final result of the realization and the amounts received by the partners respectively.

7. Linton, Price & Westerby dissolve partnership and realize the assets. After realization, the firm's Bank balance stood at £16,144. The Capital Accounts of the partners are: Linton, £5,000; Price, £4,000; Westerby, £3,000. Linton had also advanced £650 to the firm by way of Loan. The Creditors amount to £6,230. The partners share profits and losses in proportion to their Capitals. How should the £16,144 be distributed?

8. Wood, Harrison & Batty are partners, and divide profits in the proportions of 4, 3, and 2 respectively. The partnership is dissolved, and the state of affairs on date of dissolution is as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Creditors	2,755	Cash at Bank	475
Capital Accounts—		Bills Receivable . .	150
Wood	5,000	Debtors	8,420
Harrison	3,500	Stock	2,360
Batty	2,500	Plant	2,350
	£13,755		£13,755

The assets realize £437 less than their book value. The expenses of winding up are £85. What amounts are payable to the partners respectively?

9. Partridge & Paterson entered into partnership for five years, and shared profits and losses as 2 to 1. Partridge's initial Capital was £3,500 and Paterson's £850. The partnership deed provided that on the termination of the co-partnery the proceeds of realization, after liquidating the Creditors' claims, should be divided according to the partner's shares and interests therein. Accounts have been drawn up annually, and profits, losses, and drawings have been duly adjusted. At the end of the fifth year, Partridge's Capital is £4,000 and Paterson's £450. The balance of Cash remaining after paying all expenses and the Creditors amounts to £2,020. Adjust the partners' Capital Accounts.

10. Finchley & Williams dissolve partnership. The business is sold for £13,660 net, and this amount stands to the credit of the firm's banking account. The Capitals of Finchley & Williams are £5,450 and £1,800 respectively. Finchley has also advanced to the firm £1,500 by way of Loan.

The Creditors' claims amount to £4,520. The partners share profits and losses: Finchley, $\frac{2}{3}$rds; and Williams, $\frac{1}{3}$rd. How should the £13,660 be distributed?

11. X, Y, & Z dissolve partnership, and, after realization, the following is the position of affairs—

BALANCE SHEET

Liabilities	£	*Assets*	£
Creditors	464	Cash at Bank . . .	11,550
Capital Accounts—		Z—Capital Account	
X	6,000	overdrawn . . .	434
Y	5,000		
Profit on Realization . .	520		
	£11,984		£11,984

The partners share profits and losses as follows: X, $\frac{1}{2}$; Y, $\frac{3}{10}$; and Z, $\frac{1}{5}$. Z is quite unable to contribute anything. Draw up the final accounts.

12. The partnership of X, Y, & Z came to an end on 25th April. X's Capital was £6,600; Y's, £4,400; while Z had overdrawn to the extent of £350. Profits and losses were shared in the proportions of 3, 2, and 1. The assets were: Cash at Bank, £425; Bills Receivable, £950; Debtors, £6,730; Plant, £3,500; Stock, £3,500. The liabilities were: Bills Payable, £805; Bank Overdraft, £2,000; Creditors, £1,650. Z is insolvent, but his partners recover £90 from his separate estate. The assets realized the following sums: Bills Receivable, £925; Debtors, £6,500; Plant, £3,000; Stock, £3,300. The expenses of winding up amounted to £185. Draw up the final accounts, and show what each partner will receive.

13. The partnership of A, B, & C came to an end on 31st December. The Capital of A was £5,000, and of B £4,000, while C's account was overdrawn to the extent of £500, and he had no outside means. Profits and Losses were shared in the proportions of A $\frac{1}{2}$, B $\frac{1}{3}$, and C $\frac{1}{6}$. Their assets amounted to £8,870, and their liabilities to £370. The business was sold for £10,000. Show the partners' accounts after the sale had been effected. (*Chartered Accountants.*)

14. Hawker, Jocelyn, and Temple are in partnership, sharing profits and losses three-sevenths, two-sevenths, and two-sevenths respectively. The following is the position of affairs after dissolution and realization—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Capital Accounts—				Cash	900	–	–
Hawker . . .	1,800	–	–	Temple—Overdrawn . .	200	–	–
Joycelyn . . .	Nil			Deficiency of Firm . .	700	–	–
	£1,800	–	–		£1,800	–	–

Temple is insolvent and unable to contribute anything. Prepare final accounts showing the amount of Cash received by Hawker.

15. The following is the final position after dissolution of a partnership—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Capital Account—				Cash	1,000	-	-
Hawkins . .	1,500	-	-	Templar—Overdrawn .	300	-	-
				Joyce—Overdrawn . .	200	-	-
	£1,500	-	-		£1,500	-	-

What is the position and procedure if Templar and Joyce are (*a*) solvent and able to contribute their deficits; (*b*) able to contribute part of their overdrafts; (*c*) unable to contribute anything?

16. Brown, Jones, and Robinson were in partnership as Coal Merchants. On 31st December, their Balance Sheet showed the following position of affairs—

Liabilities		£	*Assets*	£
Sundry Creditors . .		3,000	Cash in hand and at Bank .	1,400
Loan on Mortgage . .		400	Sundry Debtors . . .	4,000
Brown—Capital A/c	£2,500		Stock	1,500
Drawings A/c	1,000		Horses, Carts, etc. . .	500
		3,500	Freehold Property . .	1,000
Jones—Capital A/c	£1,500		Robinson—Overdrawn .	500
Drawings A/c	500			
		2,000		
		£8,900		£8,900

They shared profits and losses in the proportions of Brown one-half, Jones one-third, Robinson one-sixth. It was decided to dissolve the partnership as at the date of the above Balance Sheet. The Freehold Property realized £1,300. Bad Debts and Discounts allowed amounted to £500. The Stock realized £1,200, and the Horses, Carts, etc., £300. The mortgage on the property was duly paid off. The Creditors were also paid, less discounts amounting to £100. The costs of realization amounted to £300. After the assets had been realized and all the liabilities discharged, Robinson became bankrupt, and a claim was made against his estate for the amount due from him to the firm on the dissolution, and a dividend thereon at the rate of 6s. 8d. in the £ was received. Write up the Realization Account, the Cash Account, and the Capital and Drawing Accounts of the partners, and close the books of the firm. (*Chartered Accountants.*)

17. Morgan and Newell are in partnership, sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors .	12,000	-	-	Cash	900	-	-
Capital Accounts—				Sundry Debtors . .	4,082	-	-
Morgan . . .	4,720	-	-	Stock	4,320	-	-
Newell . . .	2,462	-	-	Fixtures and Fittings .	3,080	-	-
				Goodwill . . .	6,800	-	-
	£19,182	-	-		£19,182	-	-

The assets, other than Cash, realize £8,600, and the expenses of winding up are £300. Close the books of the firm. It is assumed that nothing is forthcoming from the private estates of the partners.

18. Wyatt and Dawson are equal partners in a retail concern. They decide to retire, and sell their business on 31st December, the position of affairs on this date being as follows—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors	900	-	-	Cash at Bank	1,000	-	-
Capital Accounts—				Sundry Debtors	1,900	-	-
Wyatt	6,000	-	-	Stock	5,000	-	-
Dawson	4,000	-	-	Fixtures and Fittings	1,000	-	-
				Lease	2,000	-	-
	£10,900	-	-		£10,900	-	-

The Lease was sold for £3,000, Fixtures for £1,100, and Stock for £4,600. The Book Debts realized only £1,800, £60 being allowed for discount. The Creditors were paid £860 in full settlement. The expenses of winding up were £64. Close the books of the firm, showing the result of the realization, and detailing the various Ledger Accounts. Show also the payment to each partner of the amount actually due to him.

REVISION EXERCISE XI

1. Explain briefly, but clearly, what is considered to be the best system of book-keeping, and state the use and object of a Journal, and in what countries, if any, its use in trading houses is made imperative. (*London Chamber of Commerce.*)

2. Prepare, and fill in the headings of a Day Book suitable for a City Trader, which will answer the purpose of a Purchase and Sales Journal; and prepare also a form of Cash Book, which you would advise being used so as to save clerk's time and labour in posting. (*London Chamber of Commerce.*)

3. I buy goods on the 1st March, dated forward as June. I make up my accounts on the 30th April. How should I deal with this item in my Purchases Day Book, Ledger, and Balance Sheet? (*Lancashire and Cheshire Union.*)

4. You are instructed to organize the book-keeping department of a small factory. What books of account would you advise as necessary, and what rules would you lay down for the guidance of the staff and to ensure that the books are kept accurately and well up to date? Assuming that the clerks are three in number, mention what duties you would allot to each. (*London Chamber of Commerce.*)

5. Bought Goods on Joint Account with R. Roberts (profits divisible equally) from Walker & Co. for £1,050. Paid Carriage and Expenses, £55. Received R. Roberts's moiety of speculation, £525. Sold part of the goods to Marshman & Co. for £650, part for Cash £450, and took remainder value £400 into stock for my own use. Charged, as manager's commission, 5 per cent on the Sales.

Make the necessary entries in the proper books to record the above, and show the Joint Account in the Ledger.

6. A merchant has bought goods due as under—

£400 due 73 days before 30th June.
£250 „ 37 „ „ „
£400 „ on 30th June.
£700 „ 18 days after 30th June.

He wishes to pay for them on the average due date. What sum must he pay, and when must he pay it?

7. (*a*) Enumerate the main matters that must be dealt with in the "Deed of Partnership," and give four ways in practice as regards the treatment of Goodwill when a new partner is to be admitted into an existing firm.

(*b*) Give views in regard to "Goodwill" that prove it to be of value to business men, and not a fictitious asset as is so frequently suggested.

8. Messrs. Cooper & Son keep their Ledgers on the self-balancing system. From the following particulars, prepare the relative "Sales Ledger" and "General Ledger" Adjustment Accounts as at 31st March—

	£	s.	d.
Debtors' Balances as at 1st March	19,846	10	5
Total Credit Sales for month	18,755	11	6
„ Cash received from Customers for month	12,974	3	10
„ Discount allowed to Customers for month	598	15	8
Bills accepted by Customers during month	4,651	6	9
Goods returned by Customers during month	474	8	7
Acceptances dishonoured by Customers during month	326	17	5
Transfers during month from *Contra* Accounts in the Bought Ledger	156	4	11
Items charged to Customers, during the month, from Petty Cash Book	26	13	4

9. Messrs. Farmer & Right (who share profits $\frac{3}{5}$ths and $\frac{2}{5}$ths respectively) had the following balances in their books on 31st December—

	£	s.	d.
Acceptances to Creditors	997	12	–
Salaries, Travellers, etc.	780	–	–
Discounts Received	276	–	–
Cash at Bank	929	10	6
„ in hand	30	10	6
„ Creditor	2,000	–	–
Bad Debts Reserve, 1st January	129	–	–
Suspense Account (*Dr.* balance)	55	–	–
F. Farmer—Capital Account	4,620	–	–
R. Right— „ „	3,780	–	–
Purchases	5,866	–	–
Sales Ledger Balances	3,290	–	–
Stock, 1st January	4,195	–	–
Plant and Machinery	2,950	–	–
Rent, Rates, Taxes, etc.	566	–	–
Bad Debts	135	–	–
Carriage	279	–	–
Sundry Expenses	379	–	–
Manufacturing Wages	1,897	–	–
F. Farmer—Drawing Account	420	10	6
R. Right— „ „	320	10	6
Sales	11,680	–	–
Debtors' Acceptances	1,268	10	–

	£	s.	d.
Discounts Allowed	426	–	–
Legal Expenses	35	–	–
Returns Outwards	816	–	–
Bought Ledger Balances	1,954	–	–
Returns Inwards	2,430	–	–

Prepare Trading and Profit and Loss Accounts and Balance Sheet as at 31st December, after making the following adjustments—

Stock, 31st December, £5,692.
10 per cent Depreciation on Plant.
£70 Interest due to Cash Creditor.
Bad Debts Reserve, 5 per cent Debtors.
Reserves for Discounts on Debtors and Creditors, 3½ per cent and 2½ per cent respectively.
Interest on Capital at 5 per cent.
£10 Fire Insurance (Sundry Expenses) to be carried forward.

Closing entries through the Journal are required, and also the percentages of gross and net profit on the turnover.

CHAPTER XII

JOINT STOCK COMPANIES

Definition. A company is an association of persons for the purpose of carrying on trade or business, generally for mutual gain.

Joint Stock Company. This is defined as " An association of individuals for the purposes of profit, possessing a common capital contributed by the members composing it, such capital being commonly divided into shares, of which each possesses one or more, and which are transferable by the owner." *Shelford.*

The formation of joint stock companies in England, for trading and other purposes, dates back for more than three centuries. We see some notable examples in the seventeenth century in the East India Company, the Hudson Bay Company, the New River Company, and the Bank of England, which were incorporated by Royal Charter or by special Acts of Parliament. Incorporation otherwise than by these two methods was not possible until 1844; while the principle of " limited liability " was not recognized till 1855. The Act of 1862 opened up a new era in the history of joint stock companies. The Companies Acts, 1862–1928, have now been superseded by the Companies Act, 1929.

Prohibition of Large Partnerships. Companies not incorporated are, in the eyes of the law, nothing more than private partnerships. No partnership consisting of more than *ten* persons can be formed to carry on the business of banking, and no partnership consisting of more than *twenty* persons can be formed for the purpose of carrying on any other business which has for its object the acquisition of gain, without being registered as a company.

Difference between a Joint Stock Company and an Ordinary (Unlimited) Partnership. The following differences should be carefully noted—

(1) The individuality of the members who form a company is entirely lost in the personality of the company itself, which is regarded in law as a separate and distinct entity. Thus, a member of a company may enter into contracts with the company itself in the same manner as any other individual.

(2) In a company, the creditors can proceed only against the property of the company in case of necessity, and, ordinarily, there is no remedy beyond the amount of the fixed capital, which is, in fact, the total amount of the property of the legal person. In a partnership, the creditors may not only proceed against the property of the partnership, but also against the private property of each individual partner.

(3) In a public company, shares may be transferred without the consent of the other members, and without affecting its existence; this is not possible in a partnership.

(4) In the case of a limited company, the liability of each shareholder is limited to the amount unpaid on the shares which he holds; in a partnership,

each member is liable jointly and (*practically*, though not *legally*) severally for the whole of the debts of the firm.

(5) In a partnership, the number of members must not exceed twenty, and in the case of a banking company, ten. In a limited company there is no such limit, except that there must not be less than seven persons in a public company, or less than two in a private one.

(6) In a partnership, each partner can take part in the management, and his actions are legally binding on the firm; but in a company, the rights of management are restricted to a special body of shareholders called *directors*.

(7) In a partnership, the rights of the members are regulated by the Deed of Partnership, and may be altered by mutual agreement. In a limited company, the powers of the company are governed by the Memorandum of Association, which cannot be altered except by consent of the Court; and the powers of the directors are regulated by the Articles, which can only be altered by special resolution of the shareholders.

(8) The law prescribes an annual audit for a limited company, but not for a partnership.

(9) The capital of a private firm may be increased by additions and by profits, or decreased by withdrawals and losses, or altered by mutual agreement. The capital of a company is *fixed* by the Memorandum, is unaffected by trading profits or losses, and can only be increased or decreased in a special statutory manner.

Mode of Forming a Company. Any seven or more persons (or, where the company to be formed will be a private one within the meaning of the Act, any two or more persons) associated for any lawful purpose may, by subscribing their names to a Memorandum of Association, and otherwise complying with the requirements of the Act in respect of registration, form an incorporated company.

Kinds of Companies. There are three kinds of companies which may be constituted and incorporated under the Companies Act—

1. **Company Limited by Shares.** This is a company having the liability of its members limited by the Memorandum to the amount, if any, unpaid on the shares respectively held by them. Once the capital is fully paid up, there is no further liability resting on the shareholder. This class is subdivided into public and private companies.

2. **Company Limited by Guarantee.** This is a company having the liability of its members limited by the Memorandum to such amount as the members may respectively thereby undertake to contribute to the assets of the company in the event of its being wound up. There are only a few companies of this class in existence.

3. **Unlimited Company.** This is a company not having any limit on the liability of its members. Every shareholder is liable for the debts of the company as in an ordinary partnership. Such a company possesses, however, two advantages: (*a*) The liability of each member ceases at the end of a year from the time he ceases to be a member; (*b*) the shares of the company are transferable. Such companies are now extremely rare, and for several years past none has been registered.

Number of Persons. The legal minimum number of persons that can form a public joint stock company is seven, or in the case of a private company, two. The maximum number of members for a private company is fifty, and for a public company the maximum can never exceed the number of shares, as each member must, by law, take not less than one share. If a company carries on business for more than six months after the number of its members has been reduced below seven, or two, as the case may be, every member cognizant of the fact is personally liable for the whole of the debts of the company contracted during that time.

Public Company. A public joint stock company is one which offers its shares to the public for subscription.

One Man Company. This is a term applied to a company in which almost the whole of the shares are held by one person, the remainder being allotted to nominees (or a nominee) in order to make up the statutory number. This is generally the case where a successful business has been converted into a company in order to gain the advantages of incorporation, namely, the continuance of the business after the death of any of the parties interested in it, the power of transferring the shares in order to introduce fresh members, and the increased facility of borrowing money. Such a company was formerly called a "private company." The latter term, however, has now a statutory meaning under the 1929 Act.

Private Company. By Section 26 of the Companies Act, 1929, a private joint stock company is one which by its Articles—

1. Restricts the right to transfer its shares.
2. Limits the number of its members (exclusive of persons who are in the employment of the company and ex-employees) to fifty.
3. Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

Unless the Memorandum or Articles expressly forbid it, a private company may turn itself into a public company by passing a special resolution, and filing with the registrar of companies the prescribed statement in lieu of prospectus, together with the prescribed statutory declaration. And where two or more persons hold one or more shares jointly, they are, for the purposes of this section of the Act, to be treated as a single member.

Advantages of a Private Company. A private company is exempt from several of the obligations and restrictions imposed on a public company—

(1) The minimum number of members may be two instead of seven. (Section 1, Companies Act, 1929.)

(2) It is not obliged to file a statement in lieu of a prospectus. (Section 40 (2)).

(3) The restrictions put upon the commencement of business, namely, the

obtaining of the minimum subscription, waiting for the certificate entitling it to commence, etc., do not apply. (Section 94 (7)).

(4) It is not required to file with the annual summary the prescribed financial statement in the form of a balance sheet. (Section 110.)

(5) The restrictions placed on the allotment of shares (Section 40 (2)), and on the appointment of directors (Section 140 (4)) do not apply.

(6) It is not obliged to forward to the members, or to file with the registrar of companies, the statutory report. (Section 113 (10)).

(7) Holders of preference shares and debentures in a private company have not the right of those in a public company formed since the 1st of July, 1908, to receive and inspect the balance sheets and the auditors' reports, unless a formal request is made for copies. (Section 130.)

Memorandum of Association of a Company Limited by Shares. The Memorandum must state—

1. The name of the company, with "Limited" as the last word in its name.
2. Whether the registered office of the company is to be situated in England or in Scotland.
3. The objects of the company.
4. That the liability of the members is limited.
5. The amount of the share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.

No subscriber of the Memorandum may take less than one share, and each subscriber must write opposite to his name the number of shares he takes.

Memorandum of Association of a Company Limited by Guarantee. The Memorandum must state—

1. The name of the company, with "Limited" as the last word in its name.
2. Whether the registered office of the company is to be situated in England or in Scotland.
3. The objects of the company.
4. That the liability of the members is limited.
5. That each member undertakes to contribute to the assets of the company in the event of its being wound up while he is a member, or within one year afterwards, for payment of the debts and liabilities of the company contracted before he ceases to be a member, and of the costs, charges, and expenses of winding up, and for adjustment of the rights of the contributories among themselves, such amount as may be required, not exceeding a specified amount.

If the company has a share capital—

1. The Memorandum must also state the amount of share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.
2. No subscriber of the Memorandum may take less than one share.

3. Each subscriber must write opposite to his name the number of shares he takes.

Memorandum of Association of an Unlimited Company. The Memorandum must state—

1. The name of the company.
2. Whether the registered office of the company is to be situated in England or in Scotland.
3. The objects of the company.

If the company has a share capital—

1. No subscriber of the Memorandum may take less than one share.
2. Each subscriber must write opposite to his name the number of shares he takes.

Name of Company. A company may not be registered by a name identical with that by which a company in existence is already registered, or so nearly resembling that name as to be calculated to deceive, except where the company in existence is in the course of being dissolved and signifies its consent in such manner as the registrar requires. If, however, this should happen, through inadvertence or otherwise, the newly registered company may, with the consent of the registrar, change its name.

The prefix " Royal," " Imperial," or similar word may not be used without the written consent of the Board of Trade.

Any company may, by special resolution and with the approval of the Board of Trade signified in writing, change its name. The registrar will enter the new name on the register in place of the former name, and issue a certificate of incorporation altered to meet the circumstances.

Omission of " Limited " from Name of Company. Where it is proved to the satisfaction of the Board of Trade that an association about to be formed as a limited company is to be formed for promoting commerce, art, science, religion, charity, or any other useful object, and intends to apply its profits (if any) or other income in promoting its objects, and to prohibit the payment of any dividend to its members, the Board of Trade may by licence direct that the association be registered as a company with limited liability, without the addition of the word " Limited " to its name. This licence may be granted on such conditions and subject to such regulations as the Board of Trade thinks fit, and may also be revoked by the Board of Trade.

Objects of Company. The objects of a company must be set forth with accuracy, as a company exists only for the purposes which are stated in its Memorandum of Association. Any act exceeding these powers is *ultra vires*, and, therefore, null and void.

A company may, by special resolution, alter the provisions of its

Memorandum with respect to the objects of the company, so far as may be required to enable it—

1. To carry on its business more economically or efficiently; or
2. To attain its main purposes by new or improved means; or
3. To enlarge or change the local area of its operations; or
4. To carry on some business which under existing circumstances may conveniently or advantageously be combined with the business of the company; or
5. To restrict or abandon any of the objects specified in the Memorandum of Association.

The alteration, however, does not take effect until it has been confirmed wholly or in part by the Court, who will require it to be shown that the alteration is for the benefit of the company, and that the interests of all existing members and creditors are properly safeguarded. A printed copy of the Memorandum of Association, as altered, must then be forwarded to the registrar of companies for him to register and certify.

Articles of Association. Companies which are limited by guarantee, and unlimited companies, *must* register Articles of Association along with the Memorandum. These are a set of rules or by-laws drawn up to govern the internal working of a company. They regulate the issue of capital, the transfer and forfeiture of shares, the holding of meetings, prescribe for the keeping of the accounts and the audit of same, define the powers and duties of directors, the rights of shareholders *inter se*, etc. The First Schedule to the Companies Act, 1929, Table C, contains a model set of Articles suitable for adoption by a company limited by guarantee.

Where a company limited by shares does not frame articles of its own, a model set of articles, called Table A, provided in the Companies Act, 1929, becomes compulsory, and must be adopted by such company.

Articles of Association must be registered with the Memorandum of Association, and in the case of companies registered after the commencement of the 1929 Act with Articles of Association, such Articles must, by Section 8, expressly exclude or modify the regulations in Table A; otherwise these will be held, where applicable, to be the regulations of the company. By Section 9, Articles must (*a*) be printed, (*b*) be divided into paragraphs numbered consecutively, (*c*) bear a deed stamp, (*d*) be signed by each subscriber of the Memorandum of Association. Section 10 allows a company, by special resolution, to alter or add to its Articles. Any Article is null and void in so far as it conflicts with the Memorandum of Association or with statute law. Any special resolution altering the Articles must be printed and forwarded to the registrar of companies to record within fifteen days of its confirmation. Such

special resolution must also be embodied in or annexed to every copy of the Articles issued subsequently.

Registration of Memorandum and Articles. The Memorandum and the Articles (if any) must each bear a 10s. deed stamp, and must be signed by each subscriber in the presence of at least one witness, who must attest the signature. They must then be forwarded to the registrar of companies for that part of the United Kingdom in which the registered office is stated by the Memorandum to be situate; and he will retain and register them. Every company must send to each member, at his request, and on payment of 1s. or such less sum as the company may prescribe, a copy of the Memorandum and of the Articles (if any) under penalty of a fine not exceeding £1.

Registration Fees. In addition to the deed stamp of 10s., registration stamps are necessary, in the case of a company having a share capital, according to the following scale—

	£	s.	d.
Where the nominal share capital does not exceed £2,000 . .	2	–	–
Where the nominal share capital exceeds £2,000, the following fees according to the amount of nominal share capital—			
For every £1,000 or part of £1,000 up to £5,000 . . .	1	–	–
For every £1,000 or part of £1,000 after the first £5,000 up to £100,000		5	–
For every £1,000 or part of £1,000 after the first £100,000 .		1	–
For any increase of share capital after the first registration, the same fees per £1,000 or part of £1,000 as would have been payable if the increased share capital had formed part of the original share capital.			
No company to pay in respect of nominal share capital on registration, or afterwards, any greater amount of fees than	50	–	–
For registering any document required or authorized by the Act to be registered		5	–
For making a record of any fact required or authorized by the Act to be recorded by the Registrar		5	–

There is also a Capital duty of 10s. per cent imposed by the Finance Act, 1933.

The fees payable on the first registration are generally included in the item "Preliminary Expenses."

Preliminary Expenses. These include the law costs, registration fees, printing of prospectuses and forms of application, advertising and other expenses incidental to the formation or promotion of a company. Hence they are also called **Formation Expenses** and **Promotion Expenses.** Such expenditure is, of course, Capital Expenditure; but it is usually written off to Revenue over a period of years, three, five or seven, according as the amount is small, large, or very large. The balance of the account appears each year on the assets side of the Balance Sheet until the amount is finally extinguished.

Promoter. This is the person who does the necessary preliminary work in forming or floating a company. The promoter stands in a fiduciary relationship towards the company he is floating, and must

not, therefore, use his position to make any secret profit at the expense of the company. The promoter is personally liable for any acts done before the company is registered, and the company cannot subsequently ratify such acts.

Certificate of Incorporation. On the registration of the Memorandum of Association of a company the registrar certifies under his hand that the company is incorporated, and, in the case of a limited company, that the company is limited. From the date of incorporation mentioned in the certificate of incorporation the subscribers of the Memorandum, together with such other persons as may from time to time become members of the company, form a body corporate by the name contained in the Memorandum, capable forthwith of exercising all the functions of an incorporated company, and having perpetual succession and a common seal, with power to hold lands, and with such liability on the part of the members to contribute to the assets of the company, in the event of its being wound up, as is mentioned in the Act.

The Certificate of incorporation given by the registrar in respect of any association is conclusive evidence that all the requirements of the Act in respect of registration, and of all matters precedent and incidental thereto, have been complied with, and that the association is a company authorized to be registered and duly registered under the Act. If the company is a private one, it is at liberty to commence business forthwith; but a public company cannot proceed further than the issue of its prospectus inviting the public to apply for its shares.

Prospectus. This is a document issued by public companies inviting the public to subscribe for shares or debentures of the company. At the foot of the prospectus there is generally an application form (see page 482) to be filled up by persons wishing to obtain shares. Every prospectus issued by or on behalf of a company, or in relation to any intended company, must be dated, and such date will, unless the contrary be proved, be taken as the date of publication of the prospectus. A copy of every such prospectus, signed by every person who is named therein as a director or proposed director of the company, or by his agent authorized in writing, must be filed for registration with the registrar of joint stock companies on or before the date of its publication, and no such prospectus must be issued until a copy of it has been so filed for registration. Every prospectus must state on the face of it that a copy has been filed for registration.

In the Fourth Schedule to the Companies Act, matters required to be stated in the Prospectus are enumerated as under—

PART I

(1) Except where the prospectus is published as a newspaper advertisement, the contents of the memorandum, with the names, descriptions, and addresses

of the signatories, and the number of shares subscribed for by them respectively.

(2) The number of founders or management or deferred shares, if any, and the nature and extent of the interest of the holders in the property and profits of the company.

(3) The number of shares, if any, fixed by the articles as the qualification of a director, and any provision in the articles as to the remuneration of the directors.

(4) The names, descriptions, and addresses of the directors or proposed directors.

(5) Where shares are offered to the public for subscription particulars as to—

(I) the minimum amount which, in the opinion of the directors, must be raised by the issue of these shares in order to provide the sums, or, if any part thereof is to be defrayed in any other manner, the balance of the sums, required to be provided in respect of each of the following matters—

(*a*) the purchase price of any property purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the issue;

(*b*) any preliminary expenses payable by the company, and any commissions so payable to any person in consideration of his agreeing to subscribe for, or of his procuring or agreeing to procure subscriptions for, any shares in the company;

(*c*) the repayment of any moneys borrowed by the company in respect of the foregoing matters;

(*d*) working capital; and

(II) the amounts to be provided in respect of the matters aforesaid otherwise than out of the proceeds of the issue and the sources out of which these amounts are to be provided.

(6) The amount payable on application and allotment on each share, and, in the case of a second or subsequent offer of shares, the amount offered for subscription on each previous allotment made within the two preceding years, the amount actually allotted, and the amount, if any, paid on the shares so allotted.

(7) The number and amount of shares and debentures which within the two preceding years have been issued, or agreed to be issued, as fully or partly paid up otherwise than in cash, and in the latter case the extent to which they are so paid up, and in either case the consideration for which those shares or debentures have been issued or are proposed or intended to be issued.

(8) The names and addresses of the vendors of any property purchased or acquired by the company, or proposed so to be purchased or acquired, which is to be paid for wholly or partly out of the proceeds of the issue offered for subscription by the prospectus, or the purchase or acquisition of which has not been completed at the date of issue of the prospectus, and the amount payable in cash, shares, or debentures, to the vendor, and where there is more than one separate vendor, or the company is a sub-purchaser, the amount so payable to each vendor.

(9) The amount, if any, paid or payable as purchase money in cash, shares, or debentures, for any such property as aforesaid, specifying the amount, if any, payable for goodwill.

(10) The amount, if any, paid within the two preceding years, or payable, as commission (but not including commission to sub-underwriters) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any shares in, or debentures of, the company, or the rate of any such commission.

(11) The amount or estimated amount of preliminary expenses.

(12) The amount paid within the two preceding years or intended to be paid to any promoter, and the consideration for any such payment.

(13) The dates of and the parties to every material contract, not being a contract entered into in the ordinary course of the business carried on or intended to be carried on by the company or a contract entered into more than two years before the date of the issue of the prospectus, and a reasonable time and place at which any such material contract or a copy thereof may be inspected.

(14) The names and addresses of the auditors, if any, of the company.

(15) Full particulars of the nature and extent of the interest, if any, of every director in the promotion of, or in the property proposed to be acquired by, the company, or, where the interest of a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company.

(16) If the prospectus invites the public to subscribe for shares in the company and the share capital of the company is divided into different classes of shares, the right of voting at meetings of the company conferred by, and the rights in respect of capital and dividends attached to, the several classes of shares respectively.

(17) In the case of a company which has been carrying on business or of a business which has been carried on for less than three years, the length of time during which the business of the company or the business to be acquired, as the case may be, has been carried on.

PART II

(1) A report by the auditors of the company in respect to the profits of the company in respect of each of the three financial years immediately preceding the issue of the prospectus, and with respect to the rates of the dividends, if any, paid by the company in respect of each class of shares on which such dividends have been paid and particulars of the cases in which no dividends have been paid in respect of any class of share in respect of any of those years, and, if no accounts have been made up in respect of any part of the period of three years ending on a date three months before the issue of the prospectus, containing a statement of that fact.

(2) If the proceeds, or any part of the proceeds, of the issue of the shares or debentures are or is to be applied directly or indirectly in the purchase of any business, a report made by the accountants, who shall be named in the prospectus, upon the profits of the business in respect of each of the three financial years immediately preceding the issue of the prospectus.

Statement in Lieu of Prospectus. A company which does not issue a prospectus on or with reference to its formation, must not allot any of its shares or debentures unless, before the first allotment of either shares or debentures, there has been filed with the registrar of companies a "Statement in Lieu of Prospectus" (see page 372), signed by every person who is named therein as a director or proposed director of the company, or by his agent authorized in writing, in the form and containing the particulars set out in the fifth schedule of the 1929 Act. This does not apply to a *private* company. A company must not, previously to the statutory meeting, vary

FIFTH SCHEDULE

FORM OF STATEMENT IN LIEU OF PROSPECTUS TO BE DELIVERED TO REGISTRAR BY A COMPANY WHICH DOES NOT ISSUE A PROSPECTUS OR WHICH DOES NOT GO TO ALLOTMENT ON A PROSPECTUS ISSUED.

THE COMPANIES ACT, 1929

(*Insert name of Company*)

Pursuant to Section 40 of the Companies Act, 1929.

Delivered for registration by	
The nominal share capital of the Company	£....
Divided into	Shares of £.... each. " " " " " " " " "
Amount (if any) of above capital which consists of redeemable preference shares	
The date on or before which these shares are, or are liable, to be redeemed	
Names, descriptions, and addresses of directors or proposed directors.	
If the share capital of the Company is divided into different classes of shares, the right of voting at meetings of the Company conferred by, and the rights in respect of capital and dividends attached to, the several classes of shares respectively.	
Number and amount of shares and debentures agreed to be issued as fully or partly paid up otherwise than in cash.	1. .... Shares of £.... fully paid.
The consideration for the intended issue of those shares and debentures.	2. .... Shares upon £... per share credited has been paid.
Names and addresses of vendors of property purchased or acquired, or proposed to be purchased or acquired by the Company.	
Amount (in cash, shares, or debentures) payable to each separate vendor.	3. .... Debentures .... £....
Amount (if any) paid or payable (in cash, shares, or debentures) for any such property, specifying amount (if any) paid or payable for goodwill.	4. Consideration— Total purchase price . . £.... Cash . . . £.... Shares . . . £.... Debentures . £.... Goodwill . £....
Amount (if any) paid or payable as commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in the Company; or Rate of the commission.	Amount paid " payable Rate per cent.
The number of shares, if any, which persons have agreed for a commission to subscribe absolutely.	
Estimated amount of preliminary expenses.	£....
Amount paid or intended to be paid to any promoter.	Name of promoter Amount £....
Consideration for the payment.	Consideration £....
Dates of, and parties to, every material contract (other than contracts entered into in the ordinary course of the business intended to be carried on by the Company or entered into more than two years before the delivery of this statement).	
Time and place at which the contracts or copies thereof may be inspected.	
Names and addresses of the auditors to the Company (if any).	
Full particulars of the nature and extent of the interest of every director in the promotion of or in the property proposed to be acquired by the Company, or, where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares, or otherwise, by any person either to induce him to become, or qualify him as, a director, or otherwise for services rendered by him, or by the firm in connection with the promotion or formation of the Company.	
If it is proposed to acquire any business, the amount, as certified by the persons by whom the accounts of the business have been audited, of the net profits of the business in respect of each of the three financial years immediately preceding the date of this statement provided that in the case of a business which has been carried on for less than three years and the accounts of which have only been made in respect of two years or one year the above requirement shall have effect as if references to two years or one year, as the case may be, were substituted for reference to three years, and in any such case, the statement shall say how long the business to be acquired has been carried on.	

(Signatures of the persons above-named as directors or proposed directors, or of their agents authorized in writing)

Date_______________

____
____
____
____

the terms of a contract referred to in the prospectus or statement in lieu of prospectus, except subject to the approval of the statutory meeting.

Directors and Restrictions on their Appointment. The directors of a company are those persons who are elected by the shareholders to conduct and manage its business. Collectively they form the Board of Directors, and their powers are conferred, defined, and regulated by the Memorandum and Articles of Association. By Section 140, no person is capable of being appointed a director of a company by the Articles, or named as a director or proposed director of a company in any prospectus issued by or on behalf of the company, or in any statement in lieu of prospectus filed by or on behalf of a company, unless he has previously by himself, or by his agent authorized in writing,—

1. Signed and filed with the registrar of companies a consent in writing to act as such director; and
2. Either signed the Memorandum for a number of shares not less than his qualification (if any), or signed and filed with the registrar a contract in writing to take from the company and pay for his qualification shares (if any).

On the application for registration of the Memorandum and Articles of a company, the applicant must deliver to the registrar a list of the persons who have consented to be directors of the company. This section does not apply to a *private* company. A director must obtain his qualification shares within two months (or such shorter term as the Articles may fix) of his appointment, or vacate the office. The acts of a director or manager are valid, notwithstanding any defect afterwards discovered in his appointment or qualification.

Allotment of Shares and Restrictions on Allotment. Allotment signifies the distributing of the shares in response to the applications made for them, or in pursuance of contracts agreeing to take them. **A Letter of Allotment** (see page 483) is sent to each allottee informing him of the numbers of the shares allotted to him. The letter requires a 1d. stamp when the amount is less than £5, while for larger amounts the duty is 6d. An application for shares is an offer to contract, and the posting of the Letter of Allotment is an acceptance of such offer. If no allotment is made a **Letter of Regret** (see page 485) is forwarded.

By Section 39 of the Act—

1. No allotment shall be made of any share capital of a company offered to the public for subscription unless the amount stated in the prospectus as the minimum amount which, in the opinion of the directors, must be raised by the issue of share capital in order to provide for the matters specified in par. (5) in Part I of Schedule IV to this Act has been subscribed, and the sum payable on

application for the amount so stated has been paid to and received by the company.

2. The amount so stated in the prospectus shall be reckoned exclusively of any amount payable otherwise than in cash and, is in this Act, referred to as " the minimum subscription."

3. The amount payable on application on each share shall not be less than 5 per cent of the nominal amount of the share.

If the above conditions have not been complied with on the expiration of forty days after the first issue of the prospectus, the directors of the company must within forty-eight days after the issue of the prospectus, refund to the applicants all moneys received from them. Beyond this period, the directors of the company would be liable to pay 5 per cent interest on amounts to be refunded to the applicants.

The above regulations, except (3), do not apply to any allotment of shares subsequent to the first allotment of shares offered to the public for subscription.

Where a company does not issue a prospectus there must be delivered to the registrar of companies a " Statement in Lieu of the Prospectus," three days prior to proceeding to allot shares offered to the public for subscription.

Restrictions on Commencement of Business. By Section 94, a company must not commence any business or exercise any borrowing powers unless—

(*a*) Shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less in the whole than the minimum subscription; and

(*b*) Every director of the company has paid to the company on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription, or in the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, on the shares payable in cash; and

(*c*) There has been filed with the registrar of companies a statutory declaration by the secretary or one of the directors, in the prescribed form, that the aforesaid conditions have been complied with; and

(*d*) In the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, there has been filed with the registrar of companies a statement in lieu of prospectus.

On the filing of the statutory declaration, and the statement in lieu of prospectus where necessary, the registrar of companies issues a certificate that the company is entitled to commence business. This section does not apply to a *private* company.

Return as to Allotments. By Section 42, whenever a company

limited by shares makes any allotment of its shares, the company must within one month thereafter file with the registrar of companies—

(*a*) A return of the allotments (see page 494), stating the number and nominal amount of the shares comprised in the allotment, the names, addresses, and descriptions of the allottees, and the amount (if any) paid or due and payable on each share; and

(*b*) In the case of shares allotted as fully or partly paid up otherwise than in cash, a contract in writing constituting the title of the allottee to the allotment together with any contract of sale, or for services or other consideration in respect of which that allotment was made, such contracts being duly stamped, and a return stating the number and nominal amount of shares so allotted, the extent to which they are to be treated as paid up, and the consideration for which they have been allotted.

Certificates of Shares or Stock. Every company must, within two months after the allotment of any of its shares, debentures, or debenture stock, and within two months after lodgment of the transfer of any such shares, debentures, or debenture stock, complete and have ready for delivery the certificates of all shares, the debentures, and the certificates of all debenture stock allotted or transferred, unless the conditions of issue of the shares, debentures, or debenture stock otherwise provide. A certificate, under the common seal of the company, specifying any shares or stock held by any member is prima facie evidence of the title of the member to the shares or stock. The certificates are issued in exchange for the allotment letters and the bankers' receipts for money paid on application and allotment.

Nature of Shares and of Money Due on Them. The shares or other interest of any member in a company are personal estate, transferable in the manner provided by the Articles of the company. Each share in a company having a share capital must be distinguished by its appropriate number. A company cannot purchase its own shares. Any money due from a member to the company in respect of his shares is of the nature of a specialty debt, that is, recoverable any time within twenty years.

Transfer of Shares. Unless the Articles restrict or forbid it, shares are transferable either by deed or by an instrument in writing signed by the transferor and the transferee, and such transfer must be sent to the company's office for registration. The transferee then has the right to have his name entered on the Register of Members as the holder of the shares. Any transfer of the shares of a deceased member by his personal representative—executor or administrator—or by the trustee in bankruptcy is valid. Companies generally charge a fee of 2s. 6d. for registering transfers. These fees are posted to a separate account under the heading of "Transfer

Fees," and treated as a profit in the company's annual accounts. When partly paid shares are transferred, the transferor may still be liable for the amount due on them within a period of one year from the time at which he ceased to be a member, that is, if the transferee fails to pay the amount.

Unlimited Liability of Directors. In a limited company the liability of the directors or managers, or of the managing director, may, if so provided by the Memorandum, be unlimited. A limited company, if so authorized by its Articles, may, by special resolution alter its Memorandum so as to render unlimited the liability of its directors, or managers, or of any managing director. A copy of the resolution must be embodied in or annexed to every copy of the Memorandum issued subsequently.

Office, Seal, and Name of Company. Every company must have a registered office to which all communications and notices may be addressed. Notice of the situation of the registered office, and of any change therein, must be given to the registrar of companies.

Every company must also possess a common seal, which must be used for the authentication of all important documents.

Meetings—Annual General Meeting. A general meeting of every company must be held once at least in every calendar year, and not more than fifteen months after the holding of the last preceding general meeting. If default is made in holding such a meeting, the Court may, on the application of any member, call or direct the calling of a general meeting of the company.

Statutory Meeting and Statutory Report. By Section 113 of the Act, every company limited by shares and every company limited by guarantee and having a share capital shall, within a period of not less than one month nor more than three months from the date at which the company is entitled to commence business, hold a general meeting of the members of the company which is to be called the Statutory Meeting. The directors must, at least seven days before the day on which the meeting is held, forward a report (in the Act called the **Statutory Report**) to every member of the company and to every other person entitled under the Act to receive it. The Statutory Report must be certified by not less than two directors of the company, or where there are less than two directors, by the sole director and manager, and must state—

(*a*) The total number of shares allotted, distinguishing shares allotted as fully or partly paid otherwise than in cash, and state in the case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they have been allotted;

(*b*) The total amount of cash received by the company in respect of all the shares allotted, distinguishing as aforesaid;

(*c*) An abstract of the receipts of the company on account of

its capital, whether from shares or debentures, and of the payments made thereout, up to a date within seven days of the date of the Report, exhibiting under distinctive headings the receipts of the company from shares and debentures and other sources, the payments made thereout, and particulars concerning the balance remaining in hand, and an account or estimate of the preliminary expenses of the company;

(*d*) The names, addresses, and descriptions of the directors, auditors (if any), managers (if any), and secretary of the company; and

(*e*) Particulars of any contract, the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification.

A copy of the Statutory Report must be filed with the registrar of companies. The provisions as to the Statutory Meeting and the Statutory Report do not apply to a *private* company.

Different Amounts Payable on Shares. A company, if so authorized by its Articles, may—

1. Make arrangements on the issue of shares for a difference between the shareholders in the amounts and times of payment of calls on their shares.

2. Accept from any member who assents thereto the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up.

3. Pay dividend in proportion to the amount paid up on each share where a larger amount is paid up on some shares than on others.

Alteration of Share Capital. A company limited by shares, if so authorized by its Articles, may alter the conditions of its Memorandum, that is to say, it may—

(*a*) Increase its share capital by the issue of new shares of such amount as it thinks expedient.

(*b*) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares.

(*c*) Convert all or any of its paid-up shares into stock, and reconvert that stock into paid-up shares of any denomination.

(*d*) Subdivide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum, so, however, that in the subdivision the proportion between the amount paid and the amount (if any) unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived.

(*e*) Cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Every copy of the Memorandum issued subsequently must be in accordance with the alteration. Notice of any such increase, consolidation, division, conversion, or reconversion must be given to the registrar of companies.

Reorganization of Share Capital. A company limited by shares may, by special resolution confirmed by an order of the Court, modify the conditions contained in its Memorandum so as to reorganize its share capital, whether by the consolidation of shares of different classes or by the division of its shares into shares of different classes. An office copy of any such order must be filed with the registrar of companies before the resolution can take effect.

Reserve Liability of Limited Company. A limited company may by special resolution determine that any portion of its share capital which has not been already called up shall not be capable of being called up, except in the event and for the purposes of the company being wound up. The object of this is to increase the financial stability of the company by having large capital reserves.

Mortgages, Charges, etc. By Section 79 of the Act—

(*a*) A charge for the purpose of securing any issue of debentures;

(*b*) a charge on uncalled share capital of the company;

(*c*) a charge created or evidenced by an instrument which, if executed by an individual, would require registration as a bill of sale;

(*d*) a charge on land, wherever situate, or any interest therein;

(*e*) a charge on book debts of the company;

(*f*) a floating charge on the undertaking or property of the company;

(*g*) a charge on calls made, but not paid;

(*h*) a charge on a ship or any share in a ship;

(*i*) a charge on goodwill, on a patent or a licence under a patent; on a trade-mark or on a copyright or a licence under a copyright,

shall, so far as any security on the company's property is thereby conferred, be void against the liquidator and any creditor of the company, unless the prescribed particulars of the charge, together with the instrument (if any) by which the mortgage or charge is created or evidenced, are delivered to or received by the registrar of companies for registration in the manner required by the Act within twenty-one days after the date of its creation.

The registrar shall keep, with respect to each company, a register in the prescribed form of all the charges created by the company, and requiring registration under this section, and shall, on payment of the prescribed fee, enter in the register with respect to every such charge, the date of creation, the amount secured by it, short particulars of the property charged, and the names of the persons entitled

to the charge. The register shall be open to inspection by any person on payment of a fee not exceeding 1s. for each inspection.

The registrar shall give a certificate under his hand of the registration of any mortgage or charge registered in pursuance of this section stating the amount thereby secured. The company shall cause a copy of every certificate of registration to be endorsed on every debenture or certificate of debenture stock which is issued by the company, and the payment of which is secured by the charge so registered.

It shall be the duty of the company to send to the registrar for registration the particulars of every charge created by the company, and of the issues of debentures of a series, requiring registration under this section. Every company must keep a copy of every such instrument, and a copy of one such debenture, as its registered office.

Perpetual Debentures. A condition contained in any debentures or in any deed for securing any debentures, is not invalid by reason only that thereby the debentures are made irredeemable or redeemable only on the happening of a contingency, however remote, or on the expiration of a period, however long.

Power to Reissue Redeemed Debentures. Where a company has redeemed any debentures previously issued, the company, unless the Articles or conditions of issue expressly otherwise forbid, has power to keep the debentures alive for the purposes of reissue, and may either reissue the same debentures or issue others in their place. Where a company has deposited any of its debentures to secure advances from time to time on current account or otherwise, the debentures are not deemed to have been redeemed by reason only of the account of the company having ceased to be in debit whilst the debentures remained so deposited.

Trust Deed. The property of the company comprised in the charge is frequently conveyed by way of mortgage to a trustee or trustees for the debenture holders. Such an instrument is called a "trust deed," and reference to such trust deed and conditions is made on every debenture covered by it.

Floating Charge. If the property mortgaged consists of assets other than freeholds and leaseholds, such as stock, book debts, etc., the charge is called a "floating charge," and the company is able to deal with its movable property in the ordinary course of business. A floating charge attaches to the assets in the varying condition they may happen to be from time to time, and remains dormant all the while the company is a going concern, or until after default in payment of interest.

Rights of a Debenture Holder. A debenture holder who has a charge upon the company's property may—

1. Sue for repayment of the principal and any interest which is owing.

2. Present a winding-up petition against the company.
3. Prove for the debt in the winding up.
4. Appoint a receiver.

The last right is the one most frequently exercised; for a company may be only temporarily embarrassed, and a little careful management may lift it out of its difficulties.

Underwriting Commissions and Discounts. Underwriting is a kind of insurance against the risk that shares or debentures offered to the public for subscription may not be taken up, the underwriters guaranteeing to take up those shares or debentures for which the public fail to subscribe. In return for this they are paid a commission either in cash or in fully-paid shares. An agreement to *place* shares, however, is not an underwriting agreement. By Section 43 of the Act, it is lawful for a company to pay a commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the company, or procuring or agreeing to procure subscriptions, whether absolutely or conditionally, for any shares in the company, if the payment of the commission is authorized by the Articles, and the commission paid or agreed to be paid does not exceed 10 per cent of the price at which the shares are issued, or the amount or rate authorized by the Articles, whichever is the less—

(*a*) In the case of shares offered to the public for subscription, disclosed in the prospectus; or

(*b*) In the case of shares not offered to the public for subscription disclosed in the statement in lieu of prospectus, or in a statement in the prescribed form signed in like manner as a statement in lieu of prospectus and filed with the registrar of companies, and, where a circular or notice, not being a prospectus, inviting subscription for the shares is issued, also disclosed in that circular or notice.

Where a company has paid any sums by way of commission in respect of any shares or debentures, or allowed any sums by way of discount in respect of any debentures, the total amount so paid or allowed, or so much thereof as has not been written off, must be stated in every Balance Sheet of the company until the whole amount has been written off.

Auditors and Audit. Every company must have an annual audit, and the auditors must make a report to the members on the accounts examined by them, and on every Balance Sheet laid before them. The report shall state—

(*a*) Whether or not they have obtained all the information and explanations they have required.

(*b*) Whether the Balance Sheet referred to in the report has been properly drawn up so as to exhibit a true and correct view of the state of the company's affairs.

Auditors have right of access at all times to the books, accounts, and vouchers of the company, and are entitled to whatever facilities may be necessary in the performance of their duties. *They may attend at general meetings at which the accounts audited by them are being presented.*

Companies Established Outside the United Kingdom. Every company incorporated outside Great Britain which establishes a place of business within Great Britain must, within one month from the establishment of the place of business, file with the registrar—

(*a*) a certified copy of the charter, statutes, or Memorandum and Articles of the company, or other instrument constituting or defining the constitution of the company, and, if the instrument is not written in the English language, a certified translation thereof;

(*b*) particulars of the directors of the company;

(*c*) The names and addresses of some one or more persons resident in the United Kingdom authorized to accept on behalf of the company service of process and any notices required to be served on the company;

and in the event of any alteration being made in any such instrument or in the directors or in the names or addresses of any such persons as authorized, the company must within the prescribed time file with the registrar a notice of the alteration. Every such company must file with the registrar each year the prescribed Statement in the form of a Balance Sheet or a certified translation thereof.

CAPITAL

Share Capital. Capital is the money subscribed by the shareholders for the purposes of the company.

Nominal Capital is the amount stated in the Memorandum of Association. The capital possessed by a company may be only a portion of its capital, not necessarily the whole of it. The full amount of the company's capital exists very often only *in name,* hence the use of the term to indicate such capital.

Authorized Capital is the amount stated in the Memorandum of Association. The Memorandum is looked upon as the charter which *authorizes* the existence and acts of the company, hence the application of the word to its capital.

Registered Capital is the amount stated in the Memorandum of Association. The Memorandum has to be *registered* by the registrar of joint stock companies, and this fact accounts for the use of the term with reference to the company's capital.

Thus, Nominal, Authorized, and Registered Capital are the same.

Issued and Subscribed Capital. This is the capital represented by the number of shares that have been issued to the public for cash, and to the vendors as fully or partly paid. A company frequently

issues only a part of its shares, hence the use of the term Issued Capital to denote the part so issued.

Called-up Capital is the amount of money called up on the shares actually subscribed. A company does not necessarily require the full amount at once on the shares it has issued, and, therefore, ***calls up*** only such as it needs, hence the use of the term.

Paid-up Capital is the amount of the called-up capital that has actually been *paid up* by the shareholders, some of whom sometimes fail to pay the sums due from them when a call is made, the amounts thus owing being known as " Calls in Arrear " or " Calls Unpaid." It also includes the amount of the shares issued as fully or partly paid to the vendor and others.

Uncalled Capital is the amount of the capital remaining ***uncalled*** on the shares actually issued to the public and to the vendors and others.

Reserve Capital is the amount of the authorized capital which has not been called up and which the company, by special resolution, has determined shall not be capable of being called up, except in the event, and for the purpose of, winding up.

Example. A company was formed with a capital of £100,000 in shares of £1 each, and duly incorporated. It issued to the vendors 30,000 shares of £1 each as fully paid, in part payment of the purchase consideration. It also offered to the public 50,000 shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share one month later, and the balance as and when required. All the money was duly received with the exception of the call of 5s. on 200 shares.

In this case the capital would be termed as under—

	£
Nominal Capital / Authorized Capital / Registered Capital	100,000
Issued Capital	80,000
Called-up Capital	55,000
Paid-up Capital	54,950
Uncalled Capital	25,000

SHARES

Classes of Shares. A share is the individual portion of the joint stock company's capital owned by a shareholder. Shares are divided into different classes according to their respective rights.

Ordinary Shares are those which have no special or particular rights, but merely the ordinary right of every shareholder, as such, to participate in the profits.

Preferred Ordinary Shares are those which have a right to a fixed dividend after the payment of dividend to the preference shareholders.

Deferred Ordinary Shares are those which rank for dividend

after the preferred ordinary shares, and which are usually entitled to the profits then remaining.

Preference Shares are those which have a prior claim on any profits available for dividend. They *may* also have a prior claim to repayment of capital in the event of a winding up. If the shares are not Cumulative Preference Shares, the preference dividend is payable only *out of the profits of each year*; and if not paid then, the Preference shareholder cannot claim to receive it out of profits in subsequent years.

Cumulative Preference Shares are those on which the fixed dividend accumulates until it is all paid, the arrears of any one year being carried forward as a charge upon the subsequent year's profits. There is, however, no obligation to pay until a resolution has been passed declaring a dividend. The arrears are, therefore, shown on the Balance Sheet as a *contingent* liability only. Unless the Articles expressly or impliedly provide otherwise, Preference Shares are always cumulative as to dividend, but not preferential as to capital.

Redeemable Preference Shares are a new class of share created by the Companies Act, 1929 (Section 46), which a company may issue if authorized by its Articles. The company may provide for their repayment only by creating a " Reserve Fund " built up of " profits," which, otherwise, would have been available for dividends. No such shares can be redeemed unless fully paid.

Deferred, Founders, or Management Shares. These are shares which have to wait for their dividend until all other classes of share have participated in the profits. They are often taken by the founders or promoters of the company, and sometimes by the vendors. They are generally entitled to the whole or a very large portion of the surplus profits after payment of all prior claims.

Difference between Shares and Stock. Shares are transferable only in their entirety. In order to make them transferable in smaller amounts, they are frequently converted into stock. Stock may be transferable in fractional parts of a pound. Shares may be only partly paid, but stock must always be fully paid. Shares are numbered while stock is not identified in this way.

DEBENTURES

Debentures are loans to limited companies bearing a fixed rate of interest, the principal being either repayable after a certain number of years, or irredeemable during the existence of the company. Irredeemable debentures are mostly issued in the case of railway and other large companies.

Simple or Naked Debentures are those where no security is given for payment of interest or repayment of principal.

Mortgage Debentures are those which are secured on the company's

property, giving a charge upon either the whole or a portion of the assets.

Floating Debentures are those which are secured by a floating charge on the company's property.

Debentures are also classified as—

1. **Debentures to Bearer,** that is, debentures payable to bearer, with or without power for the bearer to have them placed on a register or to have them at any time withdrawn from it. These are transferable by simple delivery.

2. **Registered Debentures,** that is, debentures payable to a registered holder, with or without interest coupons payable to bearer. Any transfer of these must be registered with the company.

Difference between Debentures and Debenture Stock. Debenture Stock is borrowed money consolidated into one sum for the sake of convenience. Debentures need not be fully paid; debenture stock must always be fully paid. Debenture bonds are transferable only in their entirety; debenture stock may be transferable in multiples of a pound or fractions of a pound.

Debenture Interest is the interest payable yearly or half-yearly on the money borrowed.

Difference between a Shareholder and a Debenture Holder. A shareholder is an *inside* person, a partner in the company; a debenture holder is an *outside* person, merely a loan creditor. A shareholder shares in the profits, getting a *dividend* on the money he has invested; a debenture holder receives *interest* on the money he has lent, charged as a working expense, even if there is not any profit.

ISSUE OF SHARES AND DEBENTURES

How Shares and Debentures may be Issued. Shares and debentures may be issued in different ways both as regards terms of payment and also as regards price.

1. **As regards Price.** Shares and debentures may be issued *at par,* that is, at a price *equal* to their nominal value, as, for instance, a £1 share for £1, or a £50 debenture bond for £50. They may likewise be issued **at a premium,** that is, at a price *above* their nominal or face value, as, for instance, a £1 share for £1 2s. 6d., or a £100 debenture bond for £105. They may also be issued **at a discount,** that is, at a price *below* their nominal value. Shares, of a class already issued, can be issued at a discount under certain conditions as set forth in the Companies Act, 1929 (Section 47), which stipulates—

(*a*) The issue of the shares at a discount must be authorized by resolution passed in general meeting of the company, and must be sanctioned by the Court.

(*b*) The resolution must specify the maximum rate of discount at which the shares are to be issued.

(*c*) Not less than one year must at the date of the issue have elapsed since the date on which the company was entitled to commence business.

(*d*) The shares to be issued at a discount must be issued within one month after the date on which the issue is sanctioned by the Court or within such extended time as the Court may allow.

[Also, every prospectus relating to the issue of shares and every Balance Sheet must contain particulars of the discount allowed on the shares, or of so much of that discount as has not been written off at the date of the issue of the document in question.]

2. **As regards Terms of Payment.** Shares and debentures may be issued payable in full on application. They may also be issued payable by instalments as and when the money is required by the company.

I. SHARES AND DEBENTURES PAYABLE IN FULL

(*a*) Shares and Debentures at par

When shares and debentures are issued payable in full on application, a separate account must be opened for each class of shareholders or debenture holders, and also for each kind of share capital or debentures. The people who take the ordinary shares will be called Ordinary Shareholders, and the money they pay for these shares will be called Ordinary Share Capital, and so with other kinds of shares.

Example. A limited company issued at par 30,000 Ordinary Shares of £1 each, and £10,000 4½ per cent Debentures in bonds of £50 each; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, post to Ledger, extract Trial Balance, and draw up the company's Balance Sheet.

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
	Ordinary Shareholders .	30,000	–	–			
	To Ordinary Share Capital.				30,000	–	–
	30,000 Shares of £1 each.						
	Debenture Holders . .	10,000	–	–			
	To Debentures . .				10,000	–	–
	200 bonds of £50 each.						

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Ordinary Shareholders	30,000	–	–
,, Debenture Holders	10,000	–	–

LEDGER

Dr. ORDINARY SHAREHOLDERS Cr.

		£	s.	d.			£	s.	d.
	To Ord. Share Capital .	30,000	–	–		By Cash . .	30,000	–	–

Dr. ORDINARY SHARE CAPITAL Cr.

							£	s.	d.
						By Ord. Shareholders .	30,000	–	–

Dr. DEBENTURE HOLDERS Cr.

		£	s.	d.			£	s.	d.
	To Debentures .	10,000	–	–		By Cash . .	10,000	–	–

Dr. DEBENTURES Cr.

							£	s.	d.
						By Debenture Holders .	10,000	–	–

TRIAL BALANCE

	Dr. £	s.	d.	Cr. £	s.	d.
Ordinary Share Capital . . .				30,000	–	–
Debentures				10,000	–	–
Cash at Bank	40,000	–	–			
	£40,000	–	–	£40,000	–	–

BALANCE SHEET

Capital and Liabilities.	£	s.	d.	*Property and Assets.*	£	s.	d.
Ordinary Share Capital—				Cash at Bank . . .	40,000	–	–
30,000 Shares of £1 each .	30,000	–	–				
Debentures—							
200 Bonds of £50 each .	10,000	–	–				
	£40,000	–	–		£40,000	–	–

Narration. At the foot of each Journal entry the student will notice an explanatory remark; this is called a narration. Narrations should always be inserted in Journal entries. Not only do they assist the student to arrive at the correct figures to extend into the money columns, but they greatly facilitate the subsequent checking or auditing of the work.

Treatment of Details. The details as to the individual shareholders, the particular shares held, and the respective amounts paid

on them, are omitted in the Journal, Cash Book, and General Ledger; they are not, however, ignored altogether, but are entered into various statistical books, as will be explained in a subsequent chapter.

Journal Entries sometimes Dispensed with. Journal entries are sometimes omitted altogether, and only Cash Book entries made for the money actually received. For instance, the Cash Book in the foregoing example would, if worked by this method, appear as follows—

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Ordinary Share Capital	30,000	–	–
„ Debentures	10,000	–	–

This, however, is merely a short cut at the expense of clearness, and although theoretically correct, it cannot be recommended to the student.

(*b*) Shares and Debentures at a Premium

A separate account must be opened in the Ledger for the Premium, which forms no part of the capital, but is merely a gain to the company.

Example. A Limited Company issued 20,000 Preference Shares of £1 each at 22s. 6d. per share, and £10,000 4½ per cent Debentures, in bonds of £50 each, at a premium of 5 per cent; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show also the Company's Balance Sheet.

JOURNAL

		Dr. £	s.	d.	*Cr.* £	s.	d.
	Preference Shareholders .	22,500	–	–			
	To Preference Share Capital				20,000	–	–
	20,000 Shares of £1 each.						
	To Share Premium A/c .				2,500	–	–
	2s. 6d. per share on 20,000 shares.						
	Debenture Holders . .	10,500	–	–			
	To Debentures . .				10,000	–	–
	200 bonds of £50 each. .						
	To Debenture Premium .				500	–	–
	5% on £10,000.						

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Preference Shareholders	22,500	–	–
„ Debenture Holders	10,500	–	–

BALANCE SHEET

Capital and Liabilities.	£	s.	d.	*Property and Assets.*	£	s.	d.
Preference Share Capital—				Cash at Bank . . .	33,000	–	–
20,000 Shares of £1 each .	20,000	–	–				
4½% Debentures—							
200 Bonds of £50 each .	10,000	–	–				
Share Premium A/c . .	2,500	–	–				
Debenture Premium A/c .	500	–	–				
	£33,000	–	–		£33,000	–	–

(c) Shares and Debentures at a Discount

The discount must be separated from the amount payable on the shares and debentures; it must be posted to a separate account in the Ledger, as it forms no part of the shares and debentures, but is merely a loss sustained by the company in issuing the shares and debentures.

Example. A Limited Company, having complied with the regulations as contained in the Companies Act, 1929 (Section 47), issued 10,000 Shares of £1 each at a discount of 5 per cent; which were all subscribed and fully paid. Make the necessary Journal, Cash Book, and Ledger records; also show the Company's Balance Sheet.

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
	Sundry Shareholders . .	9,500	–	–			
	Share Discount A/c . .	500	–	–			
	To Share Capital A/c .				10,000	–	–
	For issue of 10,000 shares of £1 each at a discount of 5%.						
		£10,000	–	–	£10,000	–	–

CASH BOOK

(Debit Side) Bank

	£	s.	d.
To Sundry Shareholders	9,500	–	–

LEDGER

Dr. SHARE CAPITAL ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
						By Balance b/d . .	10,000	–	–
						„ Sundry Shareholders . .	9,500	–	–
						„ Share Discount A/c	500	–	–

Dr. SUNDRY SHAREHOLDERS *Cr.*

		£	s.	d.			£	s.	d.
	To Share Capital A/c	9,500	–	–					

Dr. SHARE DISCOUNT ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
	To Share Capital A/c	500	–	–					

BALANCE SHEET

Capital Liabilities	£	£	*Property and Assets*	£
Nominal Capital—			Cash at Bank	9,500
20,000 Shares at £1 each .	20,000		Share Discount A/c . . .	500
Issued Capital—			Sundry Assets	10,000
20,000 Shares of £1 each .		20,000		
		£20,000		£20,000

Example. A Limited Company issued £10,000 4½ per cent Debentures, in bonds of £50 each, at £45 per bond; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show also the Company's Balance Sheet.

JOURNAL *Dr.* *Cr.*

		£	s.	d.	£	s.	d.
	Debenture Holders . .	9,000	–	–			
	(£45 per bond on 200 bonds)						
	Debenture Discount . .	1,000	–	–			
	(£5 per bond on 200 bonds)						
	To Debentures . .				10,000	–	–

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Debenture Holders	9,000	–	–

BALANCE SHEET

Capital and Liabilities.	£	s.	d.	Property and Assets.	£	s.	d.
4½% Debentures—				Cash at Bank	9,000	–	–
200 Bonds of £50 each	10,000	–	–	Debenture Discount	1,000	–	–
	£10,000	–	–		£10,000	–	–

II. SHARES AND DEBENTURES PAYABLE BY INSTALMENTS

Shares and debentures are most frequently issued payable by instalments at certain intervals. In such cases separate accounts are opened for each instalment, e.g. Application Account, Allotment Account, Call Account, for both shares and debentures.

(a) Shares at par

Example. A Limited Company issued 50,000 Ordinary Shares of £1 each, payable 2s. 6d. per share on application, 7s. 6d. on allotment, and 5s. on each of two subsequent calls; which were all subscribed and the money duly received. Make the necessary Journal and Cash Book entries, post to Ledger, and draw up Trial Balance and Balance Sheet.

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
	Application A/c (Ord. Shares)	6,250	–	–			
	To Ordinary Share Capital				6,250	–	–
	2s. 6d. per share on 50,000 shares.						
	Allotment A/c (Ord. Shares)	18,750	–	–			
	To Ordinary Share Capital				18,750	–	–
	7s. 6d. per share on 50,000 shares.						
	First Call A/c (Ord. Shares)	12,500	–	–			
	To Ordinary Share Capital				12,500	–	–
	5s. per share on 50,000 shares.						
	Second Call A/c (Ord. Shares)	12,500	–	–			
	To Ordinary Share Capital				12,500	–	–
	5s. per share on 50,000 shares.						

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Application A/c (Ordinary Shares)	6,250	–	–
„ Allotment A/c „ „	18,750	–	–
„ First Call A/c „ „	12,500	–	–
„ Second Call A/c „ „	12,500	–	–

LEDGER

Dr. APPLICATION ACCOUNT (ORDINARY SHARES). *Cr.*

		£	s.	d.			£	s.	d.
	To Ord. Share Capital .	6,250	–	–		By Cash . .	6,250	–	–

Dr. ALLOTMENT ACCOUNT (ORDINARY SHARES). *Cr.*

		£	s.	d.			£	s.	d.
	To Ord. Share Capital .	18,750	–	–		By Cash . .	18,750	–	–

Dr. FIRST CALL ACCOUNT (ORDINARY SHARES). *Cr.*

		£	s.	d.			£	s.	d.
	To Ord. Share Capital .	12,500	–	–		By Cash . .	12,500	–	–

Dr. SECOND CALL ACCOUNT (ORDINARY SHARES). *Cr.*

		£	s.	d.			£	s.	d.
	To Ord. Share Capital .	12,500	–	–		By Cash . .	12,500	–	–

Dr. ORDINARY SHARE CAPITAL *Cr.*

							£	s.	d.
						By Application A/c	6,250	–	–
						„ Allotment A/c .	18,750	–	–
						„ First Call A/c .	12,500	–	–
						„ Second Call A/c	12,500	–	–

BALANCE SHEET

Capital and Liabilities	£	s.	d.	*Property and Assets*	£	s.	d.
Ordinary Share Capital— 50,000 Shares of £1 each .	50,000	–	–	Cash at Bank .	50,000	–	–
	£50,000	–	–		£50,000	–	–

Amalgamation of Application and Allotment Account. The amounts due on application and allotment are often amalgamated when journalizing, and the present editor considers this to be the better method. The first two Journal entries of the foregoing example would, under this method, appear as follows—

JOURNAL *Dr.* *Cr.*

		£	s.	d.	£	s.	d.
	Application and Allotment A/c (Ord. Shares) . .	25,000	–	–			
	To Ordinary Share Capital				25,000	–	–
	2s. 6d. on application and 7s. 6d. on allotment of 50,000 shares.						

Sundry Shareholders Method for Shares Payable by Instalments. The Sundry Shareholders Method, which is most suitable for shares payable in full on application, is sometimes used for shares payable by instalments. For instance, the Journal entries of the foregoing example would be similar to the following—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
	Sundry Shareholders . .	6,250	–	–			
	To Share Capital . .				6,250	–	–
	2s. 6d. per share on 50,000 shares, payable on application.						

The Application, Allotment, and Call Account method, however, is so very much clearer, when the amounts are payable by instalments, that it is more generally adopted.

(*b*) Shares at a premium

Example. A Limited Company issued 50,000 Preference Shares of £1 each at a premium of 2s. 6d. per share, payable 5s. per share on application, 7s. 6d. on allotment (including the premium), and 5s. per share on each of two later calls. The shares were all subscribed and the money duly received. Make the necessary Journal and Cash Book entries.

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
	Application A/c (Pref. Shares)	12,500	–	–			
	To Preference Share Capital				12,500	–	–
	5s. per share on 50,000 shares.						
	Allotment A/c (Pref. Shares)	18,750	–	–			
	To Preference Share Capital				12,500	–	–
	5s. per share on 50,000 shares.						
	To Share Premium A/c .				6,250	–	–
	2s. 6d. per share on 50,000 shares.						
	First Call A/c (Pref. Shares)	12,500	–	–			
	To Preference Share Capital				12,500	–	–
	5s. per share on 50,000 shares.						
	Second Call A/c (Pref. Shares)	12,500	–	–			
	To Preference Share Capital				12,500	–	–
	5s. per share on 50,000 shares.						

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Application A/c (Preference Shares)	12,500	–	–
„ Allotment A/c (including sum on account of premium)	18,750	–	–
„ First Call A/c (Preference Shares)	12,500	–	–
„ Second Call A/c „ „	12,500	–	–

(*c*) Debentures at par

Example. A Limited Company issued £100,000 4½ per cent Mortgage Debentures at par, payable 25 per cent on application, 25 per cent on allotment, and the balance three months later. All the money was duly received. Make the necessary Journal and Cash Book entries.

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
	Application A/c (Debentures) To 4½% Debentures . 25% of £100,000.	25,000	–	–	25,000	–	–
	Allotment A/c (Debentures) To 4½% Debentures . 25% of £100,000.	25,000	–	–	25,000	–	–
	Call A/c (Debentures) . . To 4½% Debentures . 50% of £100,000.	50,000	–	–	50,000	–	–

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Application A/c (Debentures)	25,000	–	–
„ Allotment A/c „	25,000	–	–
„ Call A/c „	50,000	–	–

(*d*) Debentures at a premium

Example. A Limited Company issued £100,000 Debentures in bonds of £100 each at a premium of £5 per bond, payable £30 per bond on application (including the premium, and the balance on allotment. The money was duly received. Make the necessary Journal and Cash Book entries.

JOURNAL

	Dr. £	s.	d.	Cr. £	s.	d.
Application A/c (Debentures)	30,000	–	–			
To Debentures . .				25,000	–	–
£25 per bond on 1,000 bonds.						
To Debenture Premium .				5,000	–	–
£5 per bond on 1,000 bonds.						
Allotment A/c (Debentures).	75,000	–	–			
To Debentures . .				75,000	–	–
£75 per bond on 1,000 bonds.						

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Application A/c (Debentures)	30,000	–	–
„ Allotment A/c „	75,000	–	–

(e) Shares and Debentures at a discount

Example. A Limited Company, having taken the necessary steps to be empowered to issue shares at a discount, issued 10,000 shares of £1 each at a discount of 5 per cent. The shares were payable as to 20 per cent on application and the balance on allotment.

Make the necessary Journal, Cash Book, and Ledger records; also a Balance Sheet.

JOURNAL

	Dr. £	s.	d.	Cr. £	s.	d.
Share Discount A/c . .	500	–	–			
To Share Capital A/c .				500	–	–
5% of £10,000.						
Application A/c (Shares) .	2,000	–	–			
To Share Capital A/c .				2,000	–	–
20% per share on 10,000 shares.						
Allotment A/c (Shares) .	7,500	–	–			
To Share Capital A/c .				7,500	–	–
75% per share on 10,000 shares.						
	£10,000	–	–	£10,000	–	–

CASH BOOK

(Debit Side) Bank

	£	s.	d.
To Application A/c (Shares)	2,000	–	–
,, Allotment A/c ,,	7,500	–	–
	£9,500	–	–

LEDGER

Dr. SHARE CAPITAL ACCOUNT Cr.

		£	s.	d.			£	s.	d.
						By Balance b/d	10,000	–	–
						,, Share Discount	500	–	–
						,, Application	2,000	–	–
						,, Allotment	7,500	–	–

Dr. APPLICATION ACCOUNT (SHARES) Cr.

		£	s.	d.					
	To Share Capital	2,000	–	–					

Dr. ALLOTMENT ACCOUNT (SHARES) Cr.

		£	s.	d.					
	To Share Capital	7,500	–	–					

Dr. SHARE DISCOUNT ACCOUNT Cr.

		£	s.	d.					
	To Share Capital	500	–	–					

BALANCE SHEET

Capital and Liabilities	£	£	*Property and Assets*	£
Nominal Capital—			Cash at Bank	9,500
20,000 Shares of £1 each	20,000		Share Discount A/c	500
Issued Capital			Sundry Assets	10,000
20,000 Shares of £1 each, fully called		20,000		
		£20,000		£20,000

Example. A Limited Company issued 1,000 4½ per cent Debenture Bonds of £100 each at a discount of 5 per cent, payable 25 per cent on application, and the balance on allotment. The money was duly received. Make the necessary Journal and Cash Book entries.

JOURNAL

	Dr. £	s.	d.	Cr. £	s.	d.
Debenture Discount . .	5,000	–	–			
To Debentures . . .				5,000	–	–
5% of £100,000.						
Application A/c (Debentures)	25,000	–	–			
To Debentures . .				25,000	–	–
25% of £100,000.						
Allotment A/c (Debentures)	70,000	–	–			
To Debentures . .				70,000	–	–
70% of £100,000.						

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Application A/c (Debentures)	25,000	–	–
„ Allotment A/c „	70,000	–	–

Note re Premiums and Discounts. The premiums and discounts are shown only in the Journal, and are never mentioned in the Cash Book. As far as the Cash Book is concerned, the receipts in the case of a premium will be *more*, and in the case of a discount *less*, than the nominal value of the shares or debentures. If the premium were shown separately in both the Cash Book and the Journal, we should have the Premium Account credited from the Journal and credited again from the Cash Book, and the result would be to double the premium.

SHARES OVER-SUBSCRIBED

Method of Procedure. It frequently happens that more shares are applied for than there are shares to allot, and in such cases the shares are said to be "*over-subscribed.*" Those applicants to whom no allotment is made, have their money refunded in full. But those subscribers who are allotted a smaller number of shares than they have applied for, do not have all the money returned to them; the amount they have over-paid on application is carried forward to the credit of the amount due from them on allotment.

Example. A Limited Company offered for subscription 50,000 shares of £1 each, payable 2s. 6d. per share on application, and 5s. per share on allotment. Applications were received for 60,000 shares. The deposits on 5,000 shares were returned to those applicants to whom no shares were allotted. The deposits on the other 5,000 shares were carried forward to the Allotment Account, these

subscribers having paid for more shares than were allotted to them. The moneys payable on allotment were duly received. Make the necessary entries in the Company's books to record the above transactions.

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
	Application A/c . . .	6,250	–	–			
	To Share Capital A/c .				6,250	–	–
	2s. 6d. per share on 50,000 shares.						
	Application A/c . . .	625	–	–			
	To Allotment A/c . .				625	–	–
	Transfer of 2s. 6d. per share on 5,000 shares overpaid on application.						
	Allotment A/c . . .	12,500	–	–			
	To Share Capital A/c .				12,500	–	–
	5s. per share on 50,000 shares.						

Dr. CASH BOOK Cr.

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To Application A/c . .	7,500	–	–	By Application A/c (deposits returned to non-allottees, 2s. 6d. per share on 5,000 shares)	625	–	–
„ Allotment A/c . .	11,875	–	–	„ Balance c/d . . .	18,750	–	–
	£19,375	–	–		£19,375	–	–
To Balance b/d . . .	18,750	–	–				

LEDGER

Dr. APPLICATION ACCOUNT Cr.

		£	s.	d.			£	s.	d.
	To Share Capital .	6,250	–	–		By Cash . .	7,500	–	–
	„ Allotment A/c .	625	–	–					
	„ Cash (returned)	625	–	–					
		£7,500	–	–			£7,500	–	–

Dr. ALLOTMENT ACCOUNT Cr.

		£	s.	d.			£	s.	d.
	To Share Capital .	12,500	–	–		By Application A/c	625	–	–
						„ Cash . .	11,875	–	–
		£12,500	–	–			£12,500	–	–

Dr. SHARE CAPITAL ACCOUNT *Cr.*

		£	s.	d.				£	s.	d.
						By Application A/c		6,250	–	–
						„ Allotment A/c .		12,500	–	–

NOTE. The foregoing Journal entry is made, it should be noted, for the number of shares actually *allotted*, and not for the number of shares applied for. In the Cash Book, however, the exact amount of money received on application must, of course, be recorded. and when the Cash is posted to the Ledger the Application Account is over-credited. But the Journal entry transferring to the Allotment Account the amount overpaid on application, together with the Cash Book entry debiting the Application Account with the money returned to non-allottees, completely adjusts the Application Account and closes it.

Alternative Method of Dealing with Shares Over-subscribed. If it is desired to journalize the whole of the applications received—and this is sometimes the case, though it can scarcely be technically correct—the entry would be as follows—

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
	Application A/c . . .	7,500	–	–			
	To Share Capital A/c (allottees) . . .				6,250	–	–
	2s. 6d. per share on 50,000 shares.						
	To Sundry Subscribers (non-allottees) . .				625	–	–
	2s. 6d. per share on 5,000 shares.						
	To Allotment A/c . .				625	–	–
	Transfer of amount overpaid on application, viz., 2s. 6d. per share on 5,000 shares.						

The Cash Book entry for the return of the deposits would be—

CASH BOOK *Cr.*

Payments	Bank £	s.	d.
By Sundry Subscribers (return of deposits to non-allottees)	625	–	–

And the Ledger accounts would appear thus—

Dr. APPLICATION ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
	To Sundries . .	7,500	–	–		By Cash . .	7,500	–	–

Dr. ALLOTMENT ACCOUNT Cr.

		£	s.	d.			£	s.	d.
	To Share Capital .	12,500	-	-		By Application A/c	625	-	-
						„ Cash . .	11,875	-	-
		£12,500	-	-			£12,500	-	-

Dr. SUNDRY SUBSCRIBERS (NON-ALLOTTEES) Cr.

		£	s.	d.			£	s.	d.
	To Cash (returned)	625	-	-		By Application A/c	625	-	-

NOTE. One advantage of amalgamating the Application and Allotment instalments is that it simplifies the adjustment of accounts when shares are over-subscribed. No transfer is required from Application Account to Allotment Account, and only a Cash Book entry becomes necessary for money which is returned to non-allottees. The Journal and Cash Book entries would be as follows—

JOURNAL Dr. Cr.

		Dr. £	s.	d.	Cr. £	s.	d.
	Application and Allotment Account . . .	18,750	-	-			
	To Share Capital A/c .				18,750	-	-
	7s. 6d. per share on 50,000 shares.						

Dr. CASH BOOK Cr.

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To Application and Allotment A/c . . .	19,375	-	-	By Application and Allotment A/c . . . (Return of deposits to non-allottees.)	625	-	-

CALLS IN ADVANCE AND IN ARREAR

Calls in Arrear. Shareholders sometimes fail to pay the sums due from them on the shares they hold. In such cases, the Allotment and Call Accounts (or Sundry Shareholders' Account if this method of entry has been adopted) will show as debit balances the amounts owing. The total of these amounts will constitute the Calls in Arrear. There may, however, be a separate Calls in Arrear Account in the Ledger, as the various sums due by defaulting shareholders may have been transferred to one special account; but this procedure is not usual. The Articles of Association generally give the directors power to charge interest on calls in arrear.

Calls in Advance. Some shareholders, who do not wish to be troubled by repeated calls, pay their shares in full before the proper

time. In such cases, the money received by the Company in excess of what has been called up must be put to a separate "Calls in Advance" account. No dividend will be payable on this money, for it does not as yet form part of the Company's capital. Most articles of association, however, give the directors power to pay interest on such Calls received in advance. When the company does call up such money, a transfer must be made debiting the Calls in Advance Account and crediting Share Capital Account.

How Calls are Shown on the Balance Sheet. Although the Calls in Arrear and Calls in Advance are separate accounts in the Ledger, yet the Calls in Arrear are not shown as a separate item on the assets side of the Balance Sheet, nor the Calls in Advance as a separate item on the liabilities side; the Calls in Advance being added, and the Calls in Arrear deducted. Some accountants, however, show the Calls in Advance separately.

Nominal Capital Shown on Balance Sheet. When a Limited Company's shares are payable by instalments, the books at any date will record only such part of the Capital as has been actually called up at this date. On the Balance Sheet, however, it is usual to show both the Nominal and the Issued capital, together with the amount called up on the shares so issued.

Example. A Limited Company with an authorized Capital of £100,000, in shares of £1 each, issued 50,000 of such shares, payable 2s. 6d. per share on application, 2s. 6d. on allotment, 5s. three months later, and the balance as and when required. All moneys payable on allotment were duly received. But when the call of 5s. per share was made, one shareholder failed to pay the amount due on his 100 shares; and another shareholder, who held 75 shares, paid them in full. Make the necessary entries in the Company's books to record the above transactions, and show the Capital on the Company's Balance Sheet.

JOURNAL *Dr.* *Cr.*

		£	s.	d.	£	s.	d.
	Application A/c . . .	6,250	–	–			
	To Share Capital A/c .				6,250	–	–
	2s. 6d. per share on 50,000 shares.						
	Allotment A/c . . .	6,250	–	–			
	To Share Capital A/c .				6,250	–	–
	2s. 6d. per share on 50,000 shares.						
	First Call A/c . . .	12,500	–	–			
	To Share Capital A/c .				12,500	–	–
	5s. per share on 50,000 shares.						

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Application A/c	6,250	–	–
„ Allotment A/c	6,250	–	–
„ First Call A/c (£12,500 – £25)	12,475	–	–
„ Calls in Advance A/c (10s. per share on 75 shares)	37	10	–

BALANCE SHEET

Capital and Liabilities	£	s.	d.	£	s.	d.
Nominal Capital—						
100,000 Shares of £1 each	100,000	–	–			
Issued Capital—						
50,000 Shares of £1 each, 10s. per share called up	25,000	–	–			
Add Calls Paid in Advance	37	10	–			
	25,037	10	–			
Less Calls in Arrear	25	–	–			
				25,012	10	–

SUMMARY OF MATTERS RELATING TO ACCOUNTS AND BALANCE SHEETS AS CONTAINED IN THE COMPANIES ACT, 1929

Unless provided for in the Company's Articles, individual shareholders formerly had little or no means of forcing the directors to expose the affairs of the Company to their view. Now, the regulations regarding accounts, formerly contained in Table A, and as such being optional, have been embodied in Section 122, and are, therefore, obligatory upon companies.

It is now compulsory for all companies to keep proper books of account which must show—

(*a*) Money received and spent from day to day, and the matters in respect of which the receipt and expenditure takes place.

(*b*) All sales and purchases of goods by the company.

(*c*) The assets and liabilities of the company.

It is also laid down that the " books of account " must be kept at the registered office of the company (or at a place as the directors think fit), and shall at all times be open to inspection by the directors. A " Profit and Loss Account " and a " Balance Sheet " must be laid before the company in general meeting at least once

each calendar year. Attached to the Balance Sheet must be a report by the directors, which report is to be upon the state of the companies' affairs, together with a statement of what they recommend should be paid by way of dividend, and of the amounts that they propose shall be carried to Reserve fund.

The law does not provide any regulations affecting the preparation of the Profit and Loss Account, but does provide specific rules as regards what must be set out in the Balance Sheet. It may be stated that the statutory requirements in this direction have been anticipated by practising accountants for some years past, and that many concerns have largely subscribed to the method laid down in Section 124 of the Act. Prior to the passage into law of this Act, the contents of the Balance Sheet, and the arrangement of its details were matters within the discretion of the directors, and the Balance Sheet, whilst purporting to show the "financial" position of the company at a given date, was in the hands of unscrupulous directors a document that was skilfully engineered to conceal it. Now, however, the law prescribes that the contents of a Balance Sheet shall be so arranged as to disclose the "general nature of the liabilities and the assets of the company."

Regulations applying to the Statement of the Assets of the company in the Balance Sheet are—

1. "Fixed" and "floating" assets must be distinguished.

2. There must be a statement of how the values of the "fixed" assets have been arrived at.

3. Under separate headings must be shown—

(*a*) Preliminary expenses.

(*b*) Goodwill.

(*c*) Trade-marks.

(*d*) Patents.

(*e*) Any expense incurred on the issue of shares and debentures, etc.

Regulations applying to the Statement of the Liabilities of the company in the Balance Sheet are—

1. A summary of the authorized share capital.

2. A summary of the issued share capital.

3. Other liabilities (which must be stated in sufficient detail to disclose their "general nature"). (See note in Balance Sheet on page 405.)

Other provisions in the Act which apply to the matters which must be detailed in a Balance Sheet (where they represent part of the company's assets and liabilities) are as under—

(*a*) Where loans have been made to employees (under special provisions) relating to the purchase of shares in the company.

(*b*) Where Redeemable Preference Shares have been issued.

(*c*) Where any shares have been issued at a discount.

(*d*) Where debentures which have been redeemed are capable of re-issue.

(*e*) Loans and remuneration paid to directors.

The above matters must be separately stated in the Balance Sheet. Further stipulations in the new Act regarding assets and liabilities peculiar to the relations existing between " holding and subsidiary " companies are dealt with below.

HOLDING COMPANIES

Definition of a Holding Company. A " holding " company is one that has acquired a sufficient number of shares in other companies to enable it to have a controlling interest in the affairs of the other companies, which companies are known as " subsidiary " companies.

Advantages of the " Holding " System of Control. (*a*) The subsidiary companies so held remain separate entities, and practically no disturbance takes place in their *modus operandi*.

(*b*) The goodwill of the subsidiary companies represented by trade marks and trade names remains intact.

(*c*) Whilst the holding company has a controlling interest in the subsidiary companies, and a central policy is possible, the subsidiaries prosecute their several business policies as determined by their own managements, who are in the best position to judge local conditions and requirements, etc.

(*d*) Financial and statistical results being separately prepared for each unit, comparisons of results are easier to follow and understand than when merged into one huge set of figures as obtains for a concern with a head office and branches (i.e. the multiple shop system).

(*e*) Financial arrangements as regards reserves for contingencies and trading reserves, also control of working capital, are best arranged by each subsidiary company whose management would be fully cognisant of all the circumstances involved in such matters.

(*f*) The capital resources, or means of creating them, are enhanced by the " holding " company who can arrange for seasonal capital to its subsidiaries, also permanent capital is provided by the " holding " company whose status in the money market is a guarantee of its strength, whereas, not one of the subsidiaries may be strong in this way.

Disadvantages of the " Holding " System of Control. A disadvantage of this system is the power which the directors have to mislead shareholders; also to the facility given to the manipulation of inter-company transactions with the intention of concealing the true state of affairs, which is a practice that can be carried out, without detection, by unscrupulous directors.

Holding Companies and the Companies Act, 1929. Until the passing into law of the Companies Act, 1929, Holding Companies were in a position to reveal or conceal as little or as much relating to their financial interests in subsidiary companies as suited their purpose. Shareholders were not apprised of the commitments of the "parent" company to their subsidiaries, nor was it always known what "profits" were arising from the investments in other companies. In a word, the financial position of the holding company was indeterminate, and, therefore, unsatisfactory. This unsatisfactory state of affairs has been checked by the coming into law of the Companies Act, 1929, which makes it obligatory for holding companies to give particulars (additional to those enumerated on page 402) of assets consisting of shares in subsidiary companies, separately in the balance sheet. The balance sheet must also include particulars as to subsidiary companies. The provisions in the Act are set out as under—

125. Where any of the assets of a company consist of shares in, or amounts owing (whether on account of a loan or otherwise) from a subsidiary company or subsidiary companies, the aggregate amount of those assets, distinguishing shares and indebtedness, shall be set out in the balance sheet of the first-mentioned company separately from all its other assets, and where a company is indebted, whether on account of a loan or otherwise, to a subsidiary company or subsidiary companies, the aggregate amount of that indebtedness shall be set out in the balance sheet of that company separately from all its other liabilities.

126.—(1) Where a company (in this section referred to as "the holding company") holds shares either directly or through a nominee in a subsidiary company or in two or more subsidiary companies, there shall be annexed to the balance sheet of the holding company a statement, signed by the persons by whom in pursuance of section one hundred and twenty-nine of this Act the balance sheet is signed, stating how the profits and losses of the subsidiary company, or, where there are two or more subsidiary companies, the aggregate profits and losses of those companies, have, so far as they concern the holding company, been dealt with in, or for the purposes of, the accounts of the holding company, and in particular how, and to what extent—

(*a*) provision has been made for the losses of a subsidiary company either in the accounts of that company or of the holding company, or of both; and

(*b*) losses of a subsidiary company have been taken into account by the directors of the holding company in arriving at the profits and losses of the holding company as disclosed in its accounts:

Provided that it shall not be necessary to specify in any such statement the actual amount of the profits or losses of any subsidiary company, or the actual amount of any part of any such profits or losses which has been dealt with in any particular manner.

(2) If in the case of a subsidiary company the auditors' report on the balance sheet of the company does not state without qualification that the auditors have obtained all the information and explanations they have required and that the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them and as shown by the books of the company, the statement which is to be annexed as aforesaid to the balance sheet of the holding company shall contain particulars of the manner in which the report is qualified.

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Capital and Liabilities	£	s.	d.	£	s.	d.
Nominal Capital—						
80,000 6% Preference Shares of £1 each				80,000	–	–
50,000 6% Redeemable Preference Shares of £1 each				50,000	–	–
100,000 Ordinary Shares of £1 each				100,000	–	–
				£230,000	–	–
Issued Capital—						
80,000 6% Preference Shares of £1 each, fully paid				80,000	–	–
50,000 6% Redeemable Preference Shares of £1 each, fully paid—redeemable 31st December, 1935				50,000	–	–
75,000 Ordinary Shares of £1 each, fully paid				75,000	–	–
15,000 Ordinary Shares of £1 each, issued at a discount of 2½%, fully paid				15,000	–	–
6% Debentures	200,000	–	–			
Less Redeemed and capable of re-issue	20,000	–	–			
				180,000	–	–
Sundry Creditors				70,000	–	–
Bills Payable				2,500	–	–
Loans against securities				4,000	–	–
Directors' fees outstanding	3,500	–	–			
Less Amounts thereon due by Subsidiary Companies	1,000	–	–			
				2,500	–	–
Amounts due to Subsidiary Companies				3,000	–	–
Debenture Redemption Fund				20,000	–	–
Reserve Fund				40,000	–	–
Profit and Loss Account—						
Balance available for distribution				51,325	–	–
				£593,325	–	–

Property and Assets	£	s.	d.	£	s.	d.
Goodwill—at cost				35,000	–	–
Patterns—at cost	8,000	–	–			
Less Depreciation @ 15%	1,200	–	–			
				6,800	–	–
Trade Marks—at cost				3,000	–	–
FIXED ASSETS—						
Freehold Land and Buildings—at cost	180,000	–	–			
Less Depreciation, 1%	1,800	–	–			
				178,200	–	–
Plant and Machinery—at cost	100,000	–	–			
Less Depreciation, 10%	10,000	–	–			
				90,000	–	–
Furniture and Fittings as valued by Messrs. Knowles & Co., 1st Jan., 19..				4,000	–	–
Investments in Shares of Subsidiary Companies, at cost				85,000	–	–
FLOATING ASSETS—						
Investments in Cotes Securities—at cost (Current market quotation, 77½)				5,000	–	–
Stock-in-Trade as valued by Manager				44,000	–	–
Sundry Debtors	98,000	–	–			
Less Bad Debts Reserve, 5%	4,900	–	–			
				93,100	–	–
Debts due for Subsidiary Companies on Trade Accounts				25,000	–	–
Loans to Employees for purchase of Shares in the Company				750	–	–
Loans to Directors during year	7,000	–	–			
Less Repayments	2,000	–	–			
				5,000	–	–
Cash at Bank	14,000	–	–			
Cash in Office	500	–	–			
				14,500	–	–
Discount on issue of Shares				375	–	–
Discount on issue of Debentures (balance to date).				3,600	–	–
				£593,325	–	–

NOTE. The dividends declared on the Company's shareholdings in subsidiary companies have been included in the Company's Profit and Loss Account. The aggregate profits of such subsidiary companies exceeded such dividends, while full provision has been made in the Company's Profit and Loss Account for the aggregate losses of subsidiary companies.

(3) For the purposes of this section, the profits or losses of a subsidiary company mean the profits or losses shown in any accounts of the subsidiary company made up to a date within the period to which the accounts of the holding company relate, or, if there are no such accounts of the subsidiary company available at the time when the accounts of the holding company are made up, the profits or losses shown in the last previous accounts of the subsidiary company which became available within that period.

(4) If for any reason the directors of the holding company are unable to obtain such information as is necessary for the preparation of the statement aforesaid, the directors who sign the balance sheet shall so report in writing and their report shall be annexed to the balance sheet in lieu of the statement.

In order to make this matter clear, a specimen Balance Sheet embodying the above features is appended. Advantage has also been taken—in the preparation of the example—to include all the items new to a Balance Sheet as laid down in the provisions of the new Act. (Balance Sheet on page 405.)

Valuation of Investments. When a holding company shows its interest in subsidiary companies as "investments," their valuation is determined by their cost, to which is added balance of profit thereon after deducting dividends. In the event of losses arising from subsidiary companies, such losses would be deducted from cost of investments so held. The following formula should make the matter clear—

$$\text{Cost} + \frac{\text{Profits}}{\text{Losses}} - \text{Dividends}$$

Revenue from Subsidiary Companies. A holding company would, generally, be sparing in taking the profits of its subsidiaries. Probably, only dividends declared would be brought into the holding company's final accounts.

From a successful subsidiary company only profit equal to the proportion that the holding company's share of its capital bears to its total capital may be taken credit for in the holding company's Profit and Loss Account.

As regards losses, it would seem a sound policy to make an adequate reserve for them.

No hard-and-fast rule can be applied, such matters being within the discretionary powers of the board of directors.

Obviously, the directorate would have the financial stability and prestige of its company to safeguard, and it would seem prudent to be conservative in taking profits, but liberal in providing against losses.

TRADING AND PROFIT AND LOSS ACCOUNT

Example. The X Manufacturing Company, Ltd., was registered with a Nominal Capital of £75,000 divided into 5,000 Ordinary Shares of £10 each, and 25,000 6 per cent Preference Shares of £1 each.

From the following Trial Balance prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date.

TRIAL BALANCE	*Dr.* £	s.	d.	*Cr.* £	s.	d.
Ordinary Share Capital Account				30,000	–	–
Preference do.				25,000	–	–
Stock (1st January)	16,200	4	3			
Cash in hand	106	2	–			
Cash at Bank	3,196	13	–			
Purchases and Sales	25,123	7	–	63,200	4	8
Returns (Inwards and Outwards)	901	7	9	308	17	6
Manufacturing Expenses	5,314	2	–			
Do. Wages	13,210	–	–			
Salaries	1,525	–	–			
Travellers' Salaries, Commission, and Expenses	3,210	–	–			
Rates and Taxes	210	–	–			
Insurance	70	–	–			
General Expenses	1,420	–	–			
Discounts	1,283	2	–	578	3	–
Bad Debts	280	–	–			
Interest and Bank Charges	87	–	–			
Land and Buildings	10,000	–	–			
Machinery and Plant	17,000	–	–			
" Trade " Debtors and Creditors	28,397	4	2	9,843	2	–
Patents	3,000	–	–			
Bad Debts Reserve (1st January)				400	–	–
Profit & Loss A/c (Balance 1st Jan.)				810	–	–
Preference Dividend Paid	706	5	–			
Interim Ordinary Dividend Paid	900	–	–			
Reserve Account				2,000	–	–
£	132,140	7	2	132,140	7	2

Before preparing the necessary accounts, the following adjustments are necessary—

Charge Depreciation on Buildings at 3 per cent per annum.
Do. on Plant and Machinery at 6 per cent per annum.
Credit a further reserve of ½ per cent on gross Sales, to the Bad Debt Reserve Account.
Write down Patents by 10 per cent.
Reserve 2½ per cent on Debtors for Discount.
Do. £250 for Directors' Fees.
Appropriate £2,000 to Reserve Account.
The value of Stock as on 31st December was £11,420 8s. 0d.

(*Royal Society of Arts.*)

(For solution see pages 409 and 410.)

Points of Difference between Profit and Loss Account and Balance

Sheet of a Limited Company and that of an Ordinary Partnership. The following should be carefully noted by the student—

1. **Appropriation Account.** This is really an extra Profit and Loss Account. It contains on the credit side the balance of profit left from the previous year, and also the net profit for the current year. Out of these total profits a certain sum is set aside for the Reserve Fund, a certain sum for the managing directors' remuneration, and any other provisions which the directors think fit to make. The balance then shows the sum available for distribution to the shareholders by way of dividend on the shares they hold. In some cases, only the net profit for the *current* year is inserted, and the appropriations made against this amount. The balance is brought down, and the amount brought forward from the previous year is then credited.

The balance of the last year's profit must *not* be shown in the *Profit and Loss Account*—a very common mistake of students. If we mix up last year's profit with this year's, we shall not be able to find the correct profit for the current year at all. Sometimes, the balance of the Profit and Loss Account brought forward from the previous year happens to be a debit. In such cases it is placed on the debit side of the Appropriation Account, to be made good out of the current year's profits.

In some companies, in order to make the profits appear as large as possible, debenture interest and depreciation of the various assets are included in the Appropriation Account. From an accountant's point of view this is not correct. Such items are really charges against the profits, and not appropriations of it; they should, therefore, be shown in the Profit and Loss Account. It seems to be generally agreed now, however, that amounts written off Goodwill should be shown in the Appropriation Account rather than in the Profit and Loss Account.

2. **Profit and Loss shown on Balance Sheet.** In an ordinary partnership the profit or loss does not show as a separate item on the Balance Sheet, but is merged in the Capital or Drawings Account, a profit being added, and a loss deducted. In the Balance Sheet of a Limited Company, however, the profit or loss is shown as a separate item, a profit on the liabilities side, and a loss on the assets side. The capital of a limited company cannot be touched except by permission of the Court; profits cannot be added, or losses deducted; it can only be increased or decreased in a special statutory manner. The shareholder frequently does not receive a copy of the Profit and Loss Account, but only of the Balance Sheet. On the Balance Sheet, therefore, it is usual to show the balance of profit brought forward from the previous year, the net profit for the current year, and any deductions already made. The shareholder may then attend the general meeting and note how the balance shall be distributed.

TRADING AND PROFIT AND LOSS ACCOUNT

For the Year Ending 31st December, 19..

Dr.	£	s.	d.	£	s.	d.	*Cr.*	£	s.	d.	£	s.	d.
To Stock, 1st Jan.				16,200	4	3	By Sales	63,200	4	8			
„ Purchases	25,123	7	–				*Less* Returns	901	7	9			
Less Returns	308	17	6								62,298	16	11
				24,814	9	6	„ Stock, 31st Dec.				11,420	8	–
„ Manufacturing Expenses				5,314	2	–							
„ „ Wages				13,210	–	–							
„ Balance (Gross Profit)				14,180	9	2							
				73,719	4	11					73,719	4	11
To Salaries				1,525	–	–	By Trading A/c (Gross Profit)				14,180	9	2
„ Travellers' Salaries, etc.				3,210	–	–	„ Discount				578	3	–
„ Rates and Taxes				210	–	–							
„ Insurance				70	–	–							
„ General Expenses				1,420	–	–							
„ Discount				1,283	2	–							
„ Bad Debts				280	–	–							
„ Interest and Bank Charges				87	–	–							
„ Bad Debts Reserve, ½%, £63,200				316	–	–							
„ Reserve for Discount on Debtors, 2½%, £27,681 4s. 2d.				692	–	7							
„ Reserve for Directors' Fees				250	–	–							
„ Depreciation—													
Patents, 10%, £3,000	300	–	–										
Buildings, 3%, £10,000	300	–	–										
Plant and Machinery, 6%, £17,000	1,020	–	–										
				1,620	–	–							
„ Balance (Net Profit)				3,795	9	7							
			£	14,758	12	2				£	14,758	12	2

Note. The Companies Act, 1929, provides *No* regulations as to the mode of preparation of the above accounts, or of their contents.

APPROPRIATION ACCOUNT

Dr.

	£	s.	d.	£	s.	d.
To Preference Share Dividend	706	5	–			
„ Ordinary „ „	900	–	–	1,606	5	–
„ Transfer to Reserve				2,000	–	–
„ Balance to Balance Sheet				999	4	7
				£4,605	9	7

Cr.

	£	s.	d.	£	s.	d.
By Balance, 1st Jan.	810	–	–			
„ Net Profit for Year	3,795	9	7	4,605	9	7
				£4,605	9	7

BALANCE SHEET AS AT 31ST DECEMBER, 19—

Capital and Liabilities	£	s.	d.	£	s.	d.
Nominal Capital—						
5,000 Ordinary Shares of £10 each	50,000	–	–			
25,000 Preference Shares of £1 each	25,000	–	–			
	£75,000	–	–			
Issued Capital—						
3,000 Ordinary Shares of £10 each				30,000	–	–
25,000 Preference Shares of £1 each				25,000	–	–
Reserve Account	2,000	–	–			
Added this year	2,000	–	–	4,000	–	–
Trade Creditors				9,843	2	–
Reserve for Directors' Fees				250	–	–
Profit and Loss A/c—Balance, 1st Jan.	810	–	–			
Add Profit for Year	3,795	9	7			
	4,605	9	7			
Less Preference Dividend	706	5	–			
	3,899	4	7			
Less Ordinary Dividend	900	–	–			
	2,999	4	7			
Less Transfer to Reserve	2,000	–	–	999	4	7
				£70,092	6	7

Property and Assets	£	s.	d.	£	s.	d.
Patents at cost	3,000	–	–			
Less Depreciation	300	–	–	2,700	–	–
Fixed Assets—						
Land and Buildings at cost	10,000	–	–			
Less Depreciation	300	–	–	9,700	–	–
Plant and Machinery at cost	17,000	–	–			
Less Depreciation	1,020	–	–	15,980	–	–
Floating Assets—						
Stock-in-trade as valued by the management				11,420	8	–
Trade Debtors	28,397	4	2			
Less Bad Debts Reserve	716	–	–			
	27,681	4	2			
Less Discount Reserve	692	–	7	26,989	3	7
Cash in hand	106	2	–			
Cash at Bank	3,196	13	–	3,302	15	–
				£70,092	6	7

NOTE. In above example Debtors and Creditors have been stated as "trade" debtors and creditors. This has been done to indicate that—according to the Companies Act, 1929—the general terms "Sundry Creditors" and "Sundry Debtors" must give place to a statement of their nature. For example, Sundry Creditors may be comprised of: (*a*) Loan creditors, (*b*) trade creditors, (*c*) bills payable, (*d*) creditors on sundry items, etc. Now, however, the Balance Sheet must show more clearly the nature of its "floating" assets and liabilities.

3. **Order of Assets and Liabilities Reversed.** On the Balance Sheet the assets are not stated in the cash order, neither are the liabilities stated in the order payable, but fixed assets and liabilities are stated first and are followed by floating assets and liabilities.

Shareholders, Debenture Holders and the Balance Sheet. According to Section 130 of the Companies Act, 1929, every member of the company and every holder of debentures except in the case of a private company, is entitled to be furnished with a copy of every balance sheet (and this includes the " last " balance sheet), including every document required by law to be annexed thereto . . . together with a copy of the auditor's report. These documents must be sent to those entitled to them *not* less than seven days before the date of the general meeting.

In the case of private companies, Section 130 (2) directs that the shareholders be furnished within seven days after request with a copy of the Balance Sheet and auditors' report at a charge of not more than sixpence for every hundred words.

QUESTIONS ON CHAPTER XII

A

1. Define the terms " Company," " Joint Stock Company," " Incorporation." In what three ways can a company be incorporated?
2. By what Acts are companies governed? What partnerships must by law be registered as a company?
3. Mention the principal points of difference between a joint stock company and an ordinary partnership.
4. How may public and private companies be formed?
5. How many kinds of companies are there? Give a brief description of each.
6. What are the maximum and minimum numbers of persons (*a*) for a public company, (*b*) for a private company?
7. Explain the terms " Public Company," " One Man Company." What is a " Private " company under the Companies Act, 1929?
8. State briefly the advantages of a private company.
9. What particulars must be stated in the Memorandum of (*a*) company limited by shares, (*b*) company limited by guarantee, (*c*) unlimited company?
10. State briefly what is meant by the phrase " Limited liability."

B

1. Can companies be registered with the same names? Can a company prefix the words " Royal " or " Imperial " to its name? What is the procedure when a company wishes to change its name?
2. Under what circumstances and conditions may the word " Limited " be omitted from the name of a company?
3. Why must the objects of a company be set forth in its memorandum with great accuracy? Under what conditions may a company alter its objects as set forth in the memorandum? How is the alteration effected?
4. What are " Articles of Association "? Are companies bound to have articles? What is meant by Table A?
5. What are the requirements of the Companies Act, 1929, as regards articles? What is the procedure for altering or adding to a company's articles?

6. What is meant by "Registering" the memorandum and articles? Is each member of a company entitled to a copy of the memorandum and articles?

7. Explain the following: Registration fees, preliminary expenses, certificate of incorporation.

8. Is the certificate of incorporation complete evidence of registration? Does it entitle a company to commence business?

9. What is a prospectus? State briefly the requirements of the Companies Act, 1929, on this matter.

10. What is meant by a "Statement in lieu of Prospectus"? When is it required? What are its principal contents? Is a statement required of every company?

C

1. What restrictions are imposed on the appointment of directors? Do these restrictions apply to all companies?

2. What restrictions are imposed on the allotment of shares? Do these restrictions apply to all companies?

3. Explain the terms "Minimum subscription," "Letter of Allotment." What stamp does the letter require?

4. What restrictions are imposed on companies as regards the commencement of business? Do these restrictions apply to all companies?

5. What "Return of Allotments" must be made by companies? What further particulars are required as regards shares which have not been issued for cash?

6. When must stock and share certificates be issued by a company? Are they evidence of the holder's title thereto?

7. Must shares be numbered? Can a company purchase its own shares? What is meant by money due on shares being a "Specialty" debt?

8. How are shares transferred? Is a transferor ever liable for the amount due on shares which he has transferred? What are "Transfer fees"?

9. What is meant by "Unlimited liability of directors"?

10. Is it compulsory for a company to have a registered office and a seal? What are the requirements of the Companies Act, 1929, with respect to the name of a company?

D

1. What are the provisions of the 1929 Act with reference to (*a*) the annual general meeting, (*b*) the statutory meeting and statutory report? What must the latter state? Must a statutory report be made by every company?

2. What is an extraordinary general meeting, and how is it called? What are the statutory provisions as to meetings and votes?

3. Explain the following terms: Ordinary resolution, extraordinary resolution, proxy, special resolution, registration of resolutions.

4. What statutory powers has a company with reference to the different amounts payable on shares?

5. What statutory powers has a company with reference to (*a*) the alteration of share capital, (*b*) the reorganization of share capital?

6. What is meant by the Reserve Liability of a limited company?

7. What mortgages are compelled to be registered by the 1929 Act, and within what time? Can anyone inspect the Register of Mortgages kept by the registrar of joint stock companies?

8. Can a company issue perpetual debentures? Has a company power to re-issue redeemed debentures?

9. Explain the terms "Trust deed," "Trustee for debenture holders," "Floating charge." What are the particular advantages of the latter?

10. What four special rights has a debenture holder? Which "right" is most frequently exercised, and why?

E

1. What is underwriting? Is an agreement to *place* shares an underwriting agreement? Under what conditions may a company pay commission to persons for procuring subscriptions to shares?

2. Must commission paid in respect of shares or debentures, or discount allowed on shares and debentures, be made known to the shareholders?

3. What statutory provisions are there with reference to the audit of a company? Must the auditor's report and balance sheet be published? Have debenture holders in joint stock companies a right to receive and inspect the auditor's report and balance sheet?

4. What are the rights and duties of an auditor as laid down by the 1929 Act?

5. What are the statutory requirements for companies incorporated outside Great Britain which establish a place of business within Great Britain?

6. What is share capital? Explain the following terms with reference to a company's capital: Nominal, authorized, registered, issued, subscribed, called-up, paid-up, uncalled, reserve. Apply the above terms to the following example: A Company was formed with a capital of £250,000 in shares of £1 each, and duly incorporated. It issued to the vendors 50,000 shares of £1 each as fully paid, in part payment of the purchase consideration. It also offered to the public 150,000 shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share one month later, and the balance as and when required. All the money was duly received with the exception of the call of 5s. on 300 shares.

7. What is a share? Explain the following kinds: Ordinary, preferred ordinary, deferred ordinary, preference, cumulative preference, redeemable preference, deferred, founders', management.

8. What is a debenture? Explain the following kinds: Simple or naked, mortgage, floating, bearer, registered.

9. What is the difference between (*a*) shares and stock, (*b*) debentures and debenture stock, (*c*) a shareholder and a debenture holder? Why are shares and debentures converted into stock?

10. Explain the following terms with reference to the issue of shares and debentures: At par, at a premium, at a discount, over-subscribed, calls in arrear, calls paid in advance.

EXERCISE XII

1. A Limited Company issued, at par, 200,000 Ordinary Shares of £1 each, and £80,000 Debentures, in bonds of £100 each; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, post to Ledger, draw out Trial Balance, and make a Balance Sheet.

2. A Limited Company issued 200,000 Preference Shares of £1 each at 22s. 6d. per share, and £80,000 Debentures at a premium of 5 per cent; which were all subscribed and fully paid up. Make the necessary Journal, Cash Book, and Ledger entries, and draw up Trial Balance and Balance Sheet.

3. A Limited Company issued £80,000 Debentures, in bonds of £100 each, at £95 per bond; which were all subscribed and fully paid up. Make the necessary Journal, Cash Book, and Ledger entries, and draw up Trial Balance and Balance Sheet.

4. A Limited Company issued 200,000 Ordinary Shares of £1 each, payable 2s. 6d. per share on application, 7s. 6d. per share on Allotment, and 5s. per share on each of two subsequent calls. All the money was duly received. Make the necessary Journal and Cash Book entries, post to Ledger, and show Trial Balance and Balance Sheet.

5. A Limited Company issued 200,000 Preference Shares of £1 each at 22s. 6d. per share, payable 7s. 6d. per share on application (including the premium), 5s. per share on allotment, and the balance in two later calls each of 5s. per share. Make the necessary Journal, Cash Book, and Ledger entries, and show Trial Balance and Balance Sheet.

6. A Limited Company issued, at par, £80,000 Debentures in bonds of £100 each, payable 20 per cent on application, 30 per cent on allotment, and the balance three months later. All the money was duly received. Make the necessary Journal and Cash Book entries, post to Ledger and draw out Trial Balance, and show also the Balance Sheet.

7. A Limited Company issued £80,000 Debentures, in bonds of £100 each, at a premium of 10 per cent, payable 20 per cent on application (including the premium), and 90 per cent on allotment. All the money was duly received. Make the necessary Journal, Cash Book, and Ledger entries, and show also the Trial Balance and Balance Sheet.

8. A Limited Company issued £80,000 6 per cent First Mortgage Debentures, in bonds of £100 each, at a discount of 10 per cent, payable £20 per bond on application, and the balance on allotment. All the money was duly received. Make the necessary Journal and Cash Book entries, post to Ledger, and draw up Trial Balance, and show also the Company's Balance Sheet.

9. A Limited Company offered for subscription 200,000 shares of £1 each, payable 2s. 6d. per share on application, and 5s. per share on allotment. Applications were received for 230,000 shares. The deposits on 15,000 shares were returned to those persons to whom no shares were allotted. The deposits on the other 15,000 shares were carried forward to the Allotment Account, these subscribers having paid for more shares than were allotted to them. The moneys payable on allotment were duly received. Make the necessary entries in the Company's Journal, Cash Book, and Ledger, to record the above transactions.

10. A Limited Company with a registered capital of £250,000, in shares of £1 each, issued 200,000 of such shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share three months later, and the balance as and when required. All moneys payable on allotment were duly received. But when the call of 5s. per share was made, one shareholder failed to pay the amount due on his 250 shares; and another shareholder, who held 200 shares, paid them right up in full. Make the necessary Journal and Cash Book entries in the company's books to record the above transactions, and show the Company's Balance Sheet.

11. Make the Journal entries necessary in order to record the undermentioned transaction—

The Ravary Printing Machine Co., Ltd., issued on 30th June, 100,000 Ordinary £1 shares at a premium of 5s. per share, payable on application. The shares applied for were payable as to 10s. per share on application, and as to 15s. per share upon allotment. The issue was fully subscribed by the public. Allotment duly took place for the whole issue on 15th July. (*London Chamber of Commerce.*)

12. The Blarneystone Diamond Syndicate, Ltd., has a Nominal Capital of £80,000, divided into 10,000 8 per cent Preference Shares of £4 each and 40,000 £1 Ordinary Shares. On 2nd January, 8,000 Preference and 20,000 Ordinary Shares are applied for, and 5s. per share is received and paid into the Company's Bank. On 1st February these Shares are allotted; 10s. per share being payable on allotment, £3,500 is received for Preference, and £8,000 for Ordinary

during February. On 1st March Calls are made, viz. £2 per share Preference and 5s. per share Ordinary, and during March, £13,000 is received for Preference Call, and £3,200 for Ordinary Call. Enter the foregoing transactions, post to Ledger, and state amounts unpaid on each class of share. (*West Riding of Yorkshire.*)

13. From the following particulars, prepare the Balance Sheet as at 31st December, 19.., of the Boscombe Manufacturing Co., Ltd.—

Nominal Capital—
30,000 5 per cent Preference Shares @ £1 each.
20,000 Ordinary Shares @ £1 each.

Issued Capital—
20,000 5 per cent Preference Shares, fully paid except on last call of 5s. on 40 shares.
18,000 Ordinary Shares, 15s. called. All paid except first call of 5s. on 20 shares.

Add to the Balance Sheet an Appropriation Account showing proposal to pay one year's dividend on the paid-up Preference Shares; 10 per cent Dividend on the paid-up Ordinary Shares. Also provide therein for £500 to General Reserve, the balance to be carried forward to next year.

	£		£
General Reserve	3,000	Cash at Bank	8,134
Sundry Debtors	6,560	Sundry Creditors	2,473
Appropriation Account balance, 1st January	209	Insurance unexpired	146
		Bad Debts Reserve	500
Stock	7,430	Amount W/o Plant and Machinery	572
Goodwill	12,000		
Machinery and Plant	8,760	Profits for the year	2,791

(*I. B. L.*)

14. Prepare a *pro forma* set of final accounts, showing therein a sufficient number of items to satisfy an examiner that you know which items are peculiar to each section thereof. Also, insert figures to indicate a grasp of practical values, and a sense of proportion in regard to the whole business whose "accounts" you are preparing. (It may be suggested that the concern has a capital of £500,000—then the component values of items in the accounts must be in proportion—but you choose any figures.)

15. The Nominal Capital of Messrs. William Pearson & Co., Ltd., consists of 50,000 shares of £1 each. On 31st December, the Ledger Balances of the Company were as follows—

	£		£
Share Capital (Issued 30,000 shares of £1 each with 10s. per share called up)	15,000	Manufacturing Wages	12,450
		Salaries	1,230
Unpaid Calls	150	Discount *Cr.*	48
Cash in hand	190	Carriage and Cartage	395
Sundry Creditors	1,960	Rates and Taxes	111
Sundry Debtors	3,640	Insurance	98
Cash at Bank	1,150	Sales	62,850
Reserve Fund	4,000	Trade Expenses	382
Machinery and Plant	6,000	Repairs	174
Mortgage Debentures (45 debentures of £100 each at 5% interest)	4,500	Purchases	41,800
		Unpaid Dividends	252
		Bad Debts	191
Freehold Premises	11,500	Office Expenses	124
Stock (1st January)	8,800	Interest paid on Debentures	225

Stock was taken as on 31st December, and was valued at £6,820.

Before closing the accounts the following adjustments are necessary—

Make a provision of 5 per cent for bad and doubtful debts. Depreciation at the rate of 10 per cent is to be written off the Machinery and Plant Account. Prepare Trading and Profit and Loss Accounts for the year ended 31st December. Take £1,000 to the Reserve Fund, and prepare a Balance Sheet as on that date. (*London Chamber of Commerce.*)

16. Peter Pink and Benjamin Brown are in partnership, sharing profits and losses, $\frac{2}{3}$rds to Peter Pink and $\frac{1}{3}$rd to Benjamin Brown. Interest on Capital to be credited to the partners annually. The following adjustments must be taken into consideration when preparing the Trading and Profit and Loss Account, and Balance Sheet which is required, as per Deed of Partnership, to be drawn up at the end of each year.

(1) Quarter's rent owing.
(2) Insurance unexpired, £21.
(3) Interest accrued on Investments—Tax @ 4s. 6d.
(4) £400 Advertising to be carried forward.
(5) Write off bad debts, £67.
(6) Depreciate Office Furniture at 5 per cent per annum.
(7) Rates unexpired, £36.

	£		£
Current Accounts (*Dr.* side)—		Capital Accounts—	
P. Pink } (Withdrawals	1,004	P. Pink	3,600
B. Brown } during year)	847	B. Brown	1,600
Office Furniture	840	Creditors	854
Sundry Debtors	2,934	Sales	43,021
Purchases	37,060	Returns Outwards	220
Stock, 1st Jan.	1,880	Discounts (balance)	331
Carriage Inwards	292	Reserve for Bad Debts	500
Returns Inwards	125	Interest on Investments (6 months)	31
Rent	375	Current Accounts (*Cr.* side)—	
Salaries	630	P. Pink	120
Carriage Outwards	56	B. Brown	80
Advertising	800		
Rates	180		
Insurance, £62; National Insurance, £27	89		
Telephone	26		
General Expenses (including Stationery)	197		
Postage	117		
Repairs	21		
Electric Light	18		
Bank Charges	6		
Investments, £1,600 5% Rly. Stock	1,557		
Cash at Bank	1,293		
Cash in hand	10		
	£50,357		£50,357

Stock 31st Dec., 19.., £1,287. (*I. B. L.*)

17. From the following Trial Balance of the Accounts of a Manufacturing Company (whose Authorized Capital consists of 15,000 Ordinary Shares of

£10 each) prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.

	£		£
Capital issued and fully paid up, 9,000 shares of £10 each	90,000	Insurance	190
Stock (1st January)	32,000	General Expenses	2,640
Cash in hand	150	Discounts (balance) *Dr.*	1,800
Cash at Bank	2,900	Bad Debts	570
Purchases	52,350	Interest and Bank Charges	350
Sales	136,500	Land and Buildings	22,250
,, Returns	400	Machinery and Plant	35,600
Purchases Returns	750	Sundry Debtors	52,500
Manufacturing Charges	11,500	Sundry Creditors	21,750
Manufacturing Wages	28,550	Patents	5,000
Salaries	1,500	Bad Debts Reserve (1st January)	2,600
Trade Expenses	6,850	Profit and Loss (*Cr.* balance 1st January)	750
Rates and Taxes	250	Reserve Account	5,000

Charge Depreciation on Land and Buildings Account at 3 per cent per annum, and on Machinery and Plant Account at 6 per cent. Make a Reserve of 5 per cent on the Sundry Debtors for Bad Debts; write down Patents Account by 10 per cent; carry forward £90 of Insurance; and charge £500 as Directors' Fees. The value of the Stock, as on 31st December, was agreed at £23,700. Charge 10 per cent on net profits as remuneration to the Managing Director, and appropriate £2,500 to the Reserve Account, carrying forward the balance. (*Royal Society of Arts.*)

18. The Brown Box Co., Ltd., was registered with a Nominal Capital of £10,000 divided into 5,000 Ordinary Shares of £1 each and 5,000 6 per cent Preference Shares of £1 each. From the following Trial Balance, extracted from the books of the company, prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date—

	£	s.	d.		£	s.	d.
Ordinary Share Capital	4,800	–	–	Ordinary Share Dividend	114	–	–
Preference Share Capital	3,000	–	–	Bad Debt Reserve (1st January)	188	14	8
Freehold Land and Buildings	3,700	–	–	Manufacturing Wages	2,014	1	9
				Salaries	505	14	8
Furniture and Fixtures	946	6	10	Sales	10,124	14	2
				,, Returns	101	2	10
Stock (1st January)	1,929	14	7	Insurance	39	1	2
Plant and Machinery	1,727	10	2	Directors' Fees	50	–	–
Rates and Taxes	87	14	1	Purchases	4,129	16	8
Carriage	422	4	8	,, Returns	94	12	4
Trade Expenses	39	1	1	Sundry Debtors	3,764	17	10
Lighting and Heating Expenses	72	2	6	Sundry Creditors	2,144	5	1
General Expenses	127	16	10	Profit and Loss Account (*Cr.* balance)	472	7	2
Discount Account (balance) *Cr.*	13	2	–	Bank Charges	10	2	1
				Cash at Bank	822	5	7
Preference Share Dividend	171	–	–	,, in hand	63	2	1

Before preparing the Accounts (as above required), the following adjustments are necessary—

(1) Charge Depreciation on Land and Buildings at 2½ per cent per annum.
(2) Do. Furniture and Fixtures at 5 per cent per annum.
(3) Do. Plant and Machinery at 10 per cent per annum.
(4) Make the Bad Debt Reserve up to £400.
(5) Carry forward the following unexpired amounts—

(a) Insurance . . . £9 7 6
(b) Rates and Taxes . . £17 8 2

The value of the Stock on 31st December was certified by the Managing Director at £1,721 17s. 3d. (*Royal Society of Arts.*)

19. The secretary of the Cheshire Manufacturing Co., Ltd., takes out his balances on 31st December, and submits to you the following particulars, from which prepare Trading Account, Profit and Loss Account, and Balance Sheet—

Nominal Capital, £150,000, divided into 5,000 Preference Shares of £10 each, and 10,000 Ordinary Shares of £10 each.

	£		£
5,000 Preference Shares, £10 each, £2 paid . .	10,000	Bad Debts . . .	275
10,000 Ordinary Shares, £10 each, £5 called up . .	50,000	Postage, etc. . . .	86
150 5% Mortgage Debentures of £100 each, issued at 95	15,000	Rates, Taxes, and Insurance	524
Cost of issue of Debentures.	750	Travelling Expenses . .	302
Purchases . . .	43,249	Interest and Bank Charges	75
Land and Buildings . .	25,100	Directors' Fees . .	550
Fuel	570	Stock (1st January) . .	11,420
Plant and Machinery. .	5,620	Sundry Debtors . .	24,300
Repairs	445	Sundry Creditors . .	9,160
Loose Tools (1st January) .	1,752	Carriage Inwards . .	220
Office Expenses . .	363	Goodwill	10,000
Sales	53,847	Carriage Outwards . .	410
Wages	9,371	Debenture Interest paid .	375
Discounts Received . .	324	Profit and Loss Account, balance of loss brought forward from last account	2,243
Discounts Allowed . .	517	Unpaid Calls, Ordinary Shares	250
Salaries	975	Bank Overdraft . .	1,525
		Cash in hand . . .	114

Reserve for Debenture Interest, £375. Reserve for Wages, £50. Provide for Bad Debts, £400; Insurance prepaid, £21. Depreciate Land and Buildings 1 per cent, and Plant and Machinery 10 per cent. Reserve for Discounts, 5 per cent on Sundry Debtors and 2½ per cent on Sundry Creditors. Stock at 31st December, £18,763.

Value of Loose Tools at 31st December, £2,000. (*Lancashire and Cheshire Union.*)

20. The Highburn Manufacturing Co., Ltd., with a Nominal Capital of 40,000 Ordinary Shares of £1 each, by the Memorandum and Articles of Association have power to issue 200 Debentures of £50 each bearing interest at 4½ per cent per annum.

On 30th June, the Ledger Balances were abstracted as follows—

	£		£
Share Capital, 40,000 Shares of £1 each, 15s. called	30,000	Bank Interest and Commission *Dr.*	114
Calls in Arrear	205	Bad Debts written off	249
Debentures issued, 100 at £50	5,000	Premises	12,450
Stock (1st July)	6,537	Machinery and Plant	18,750
Purchases	22,448	Fixtures and Fittings	3,750
Returns to Creditors	1,745	Sundry Debtors	12,160
Sales	46,728	Sundry Creditors	7,728
Returns from Customers	1,174	Interest Paid on Debentures	214
General Trade Expenses	1,014	Dividend Paid	1,415
Wages	13,632	Reserve Fund	5,000
Salaries	2,042	Reserve for Bad Debts (1st July)	760
Travelling Expenses	758	Cash in hand	43
Advertising	870	Cash at Bank	1,427
Rents, Rates, Taxes and Insurance	858	Profit and Loss Account, *Cr.* balance (1st July)	3,463
Discount (*Dr.* balance)	314		

The Stock on hand on 30th June = £6,900.

Draw up a Trading and Profit and Loss Account, after making the following adjustments—

(*a*) Depreciate the Machinery and Plant by 10 per cent, the Fixtures and Fittings by 10 per cent. (*b*) Make up the Reserve for Bad Debts to 7½ per cent of the Book Debts. (*c*) Insurances are paid in advance to the extent of £96. (*d*) Make out a Balance Sheet as at 30th June. (*Union of Educational Institutes.*)

21. The North London Engineering Co., Ltd., was registered on 1st January, with a Nominal Capital of £100,000, in Ordinary Shares of £1 each. It had power to issue £15,000 Mortgage Debentures of £100 each, bearing interest at 4 per cent per annum. It took over on that date an existing engineering business and commenced manufacturing. Stock was taken and the books balanced, and accounts prepared annually; and at the close of the year Stock was taken and valued at £14,250. The following adjustments were necessary before closing the accounts—

(*a*) Depreciation to be written off Plant and Machinery at the rate of 10 per cent, and off Patents Account at 20 per cent.

(*b*) The half-year's Debenture Interest due on 31st December to be passed through the books.

(*c*) A 5 per cent provision for Bad and Doubtful Debts to be made.

Make such adjustments and prepare a Trading Account, a Profit and Loss Account, and a Balance Sheet from the following balances (31st December), after carrying £1,500 profit to the Reserve Account.

LEDGER BALANCES (31st December)

	£		£
Share Capital 60,000 Shares of £1 each issued and 10s. per share called up	30,000	Cash in hand	320
Unpaid Calls	300	Sundry Creditors	4,095
Patents	900	Sundry Debtors	7,240
		Reserve Account	8,500
		Machinery and Plant	12,480

LEDGER BALANCES (31ST DECEMBER)—*continued*

	£		£
Mortgage Debentures .	9,000	Unpaid Dividends . .	58
Freehold Buildings (1st January) . . .	24,000	Mortgage Debenture Interest	180
Stock (1st January) . .	17,200	Provision for Auditors' Fees	75
Manufacturing Wages .	22,100	Bad Debts . . .	578
Salaries	2,400	Interest Payable and Bank Charges	138
Carriage	560	Additions to Buildings during the year . . .	3,840
Rates, Taxes, and Insurance	252	Holdfast Bank, Ltd. (overdraft)	4,200
Sales	121,580	Bad Debt Reserve (1st January) . . .	321
Trade Expenses . .	721		
Repairs	240		
Rents Receivable . .	374		
Purchases	84,604		

(*Royal Society of Arts.*)

22. The Nominal Capital of the L. and C. Engineering Co., Ltd., is: £10,000 divided into 10,000 Ordinary Shares of £1 each; £20,000 divided into 20,000 7 per cent Cumulative Preference Shares of £1 each; and the Company is authorized to issue £10,000 divided into 200 5 per cent First Mortgage Debentures of £50 each. From the following Trial Balance prepare a Trading Account, Profit and Loss Account, and Balance Sheet as on 31st March.

	£	s.	d.		£	s.	d.
Ordinary Share Capital . . .	10,000	–	–	Stock (1st April) .	2,760	–	–
Preference Share Capital . .	20,000	–	–	Wages, Productive .	2,576	10	–
Arrears on Ordinary Shares . .	70	–	–	Carriage (Inwards) .	320	5	–
200 5% First Mortgage Debentures £50 each, £30 paid	6,000	–	–	Carriage (Outwards)	167	10	–
Sundry Creditors .	5,609	–	–	Coal and Coke .	250	–	–
Sales	24,698	–	–	Loose Tools (1st April) . .	1,890	–	–
Returns off Purchases. . .	287	–	–	Rent, Rates, etc. .	236	10	–
Profit and Loss (*Cr.* balance, 1st April)	169	10	–	Sundry Expenses .	157	10	–
Plant and Machinery	15,000	–	–	Discounts Allowed .	760	–	–
Patents	3,960	10	–	Bad Debts . .	127	10	–
Office Furniture .	127	–	–	Directors' Fees .	200	–	–
Sundry Debtors .	12,125	10	–	Interim Preference Dividend paid 15th October .	665	–	–
Purchases . . .	15,965	16	–	Bank Charges .	57	10	–
Returns off Sales .	267	10	–	Debenture Interest, *less* tax . .	285	–	–
Salaries	200	–	–	Cash in hand . .	73	4	–
Goodwill . . .	9,788	5	–	Lloyds Bank, Ltd. *Cr.*	1,067	10	–
				Discounts Received .	200	–	–

Stock on hand, 31st March, £3,025 10s. Loose Tools, 31st March, £1,870. Write off Plant and Machinery, 10 per cent per annum. Write off Office Furniture and Fittings, 5 per cent per annum. Write off Patents, 20 per cent per annum. Reserve £200 for future Discounts, and £150 for Bad Debts. (*Lancashire and Cheshire Union.*)

23. The Loamshire Manufacturing Co., Ltd. ,was registered with a Nominal Capital of £70,000, divided into 50,000 Ordinary Shares of £1 each and 20,000 6 per cent Preference Shares of £1 each.

From the Trial Balance extracted from the books of the Company as on

30th June, 19.., you are required to prepare Manufacturing and Profit and Loss Accounts for the year ended 30th June, 19.., and a Balance Sheet as on that date.

When preparing the necessary accounts the following matters must be taken into consideration—

(1) Bad Debts Reserve is to be adjusted to 5 per cent of the Sundry Debtors at 30th June, 19...

(2) The following valuations were made as on 30th June, 19..: Stock, £21,342; Loose Tools, £195.

(3) Depreciation at 10 per cent is to be provided on Machinery.

(4) Rent due in respect of Office sublet (£50) for Quarter to June has not been received.

(5) Office Salaries £127, and Factory Wages £325, were due as on 30th June, 19.., and had not been paid.

(6) Insurance paid in advanced amounted to £64 (Factory, £48; Office, £16.)

	Dr. £	s.	d.	*Cr.* £	s.	d.
Ordinary Shares				50,000	–	–
Preference Shares				20,000	–	–
Unpaid Calls—Preference Shares	200	–	–			
Freehold Premises	30,000	–	–			
Debtors and Creditors	4,320	–	–	6,728	–	–
Rates, Taxes and Insurance (Factory, £1,025; Office, £135)	1,160	–	–			
Machinery and Plant	19,580	–	–			
Rent of Offices sublet				150	–	–
Factory Wages	13,243	–	–			
Office Salaries and Directors' Fees	6,421	–	–			
Purchases	42,345	–	–			
Stock, 1st July, 19..	18,227	–	–			
Sales				76,529	–	–
Discount (Balance)	982	–	–			
Carriage (Inwards, £625; Outwards, £1,216)	1,841	–	–			
Bad Debt Reserve, 1st July, 19..				250	–	–
Investment: 15,000 £1 Shares in Loamshire (Components), Ltd.	15,000	–	–			
Profit and Loss Account (Balance, 1st July, 19..)				4,825	–	–
Dividend received on Investment				500	–	–
Repairs to Premises	145	–	–			
Loose Tools	210	–	–			
Returns (Sales and Purchases)	927	–	–	423	–	–
Cash at Bank	756	–	–			
Heating, Lighting and Fuel (Factory, £3,422; Office, £626)	4,048	–	–			
	£159,405	–	–	£159,405	–	–

(*Royal Society of Arts.*)

24. On 31st December, the Trial Balance of John Stephens & Co., Ltd., stood as follows. Prepare a Profit and Loss Account, and Balance Sheet, after making necessary adjustments.

The Company was registered on 15th December, and commenced trading on 1st January. The Capital of the Company is £80,000, divided into 30,000

5 per cent Cumulative Preference Shares of £1 each and 50,000 Ordinary Shares of £1 each. The whole of the Preference Shares and 40,000 of the Ordinary Shares have been issued. The Preference Shares are fully paid and 15s. per share has been called up on the Ordinary Shares. The dividends upon the Preference Shares are payable 1st April and 1st October.

	£	s.	d.		£	s.	d.
Mortgages at 4% per annum	10,000	–	–	Bank	4,493	2	8
Sundry Debtors	9,507	3	9	Interest	408	–	–
Patent Rights, two years expired	3,000	–	–	Interest on Mortgages to 30th June, *less* tax	190	16	8
Royalties	294	8	11	Directors' Fees	350	–	–
Interim Dividend paid on Preference Shares, *less* tax, 1st October	1,073	8	9	Management and Office Salaries	1,530	–	–
Sundry Creditors	7,194	–	9	Transfer Fees	1	12	6
Chief Rents *Dr.*	12	4	8	Wages	20,921	11	8
Rent of Cottages *Cr.*	102	9	6	Formation Expenses	2,397	18	2
Land and Buildings	17,600	–	–	Calls in Arrear	50	–	–
Plant and Machinery	28,896	14	–	Suspense Account *Dr.*	1,316	12	9
Office Furniture	412	10	–	Sales	84,326	10	1
Goodwill	10,526	5	4	Cottages	2,000	–	–
Cash in hand	78	4	6	Trade Expenses	6,772	6	2
				Purchases	49,793	4	10

The Stock at 31st December was £3,197 16s.

Write 2½ per cent off Land and Buildings, 6 per cent off Machinery and Plant. 10 per cent off Goodwill, 25 per cent off Formation Expenses, and 7½ per cent off Office Furniture. (*Lancashire and Cheshire Union.*)

25. Messrs. John Bolton & Co., Ltd., was registered as a limited company in 19... The nominal Capital of the Company consists of 75,000 Ordinary Shares of £1 each. The Company is also empowered by its Memorandum of Association to issue 250 Debentures of £100 each, carrying interest at the rate of 4½ per cent per annum.

The books were balanced as on 31st December, on which date the Stock in hand was valued at £11,840.

The Ledger Balances were as follows—

	£		£
Share Capital (Issued 50,000 Shares of £1 each with 15s. per share called up	37,500	Insurance (Fire)	195
Calls Paid in Advance	125	Reserve Fund	6,800
Mortgage Debentures (Issued 100 Debentures of £100 each)	10,000	Discount (debit balance)	829
Unpaid Calls (Ordinary Shares)	250	Returns from Customers	1,482
Stock (1st January)	9,875	Returns to Creditors	3,421
Cash in hand	60	Bad Debts written off	348
Cash at Bankers	3,104	Interest paid on Debentures	450
Purchases	32,960	Freehold Land and Buildings	22,280
Sales	61,842	Machinery and Plant	17,800
Trade Charges	982	Patents	1,200
Wages	19,462	Sundry Debtors	20,140
Salaries	1,291	Sundry Creditors	11,861
Travelling Expenses	871	Bad Debts Reserve (1st January)	940
Rates and Taxes	321	Profit and Loss Account (balance 1st January)	3,286
		Dividend (paid on Ordinary Shares on 14th February)	1,875

The following adjustments are necessary—

(1) Provide for Depreciation on the Machinery and Plant at the rate of 10 per cent, and on the Patents at the rate of 15 per cent.

(2) Make a provision of 5 per cent for Bad and Doubtful Debts.

(3) Carry forward £50 of the amount paid for the Fire Insurance, representing the unexpired period covered by the premiums.

(4) It was decided by the directors not to add to the Reserve Fund, but a bonus of 5 per cent on the net profits for the year, was voted for distribution amongst the departmental managers. Provide for this before closing the accounts.

Prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

26. Yorkshire Tweed Co., Ltd., Nominal Capital £10,000, divided into 5,000 6 per cent Cumulative Preference Shares of £1 each, and 5,000 Ordinary Shares of £1 each.

LEDGER BALANCES (31st December)

	£	s.	d.		£	s.	d.
Preference Share Capital, 3,000 Preference Shares fully paid	3,000	–	–	Rates, Gas, and Insurance	203	9	6
Ordinary Share Capital, 4,119 Ordinary Shares fully paid	4,119	–	–	Profit and Loss Account (1st January) *Dr.*	20	11	2
First Mortgage Debentures, 4%	2,000	–	–	Repairs	176	14	2
Machinery Account (1st January)	4,000	–	–	Debenture Interest to 30th June	40	–	–
Machinery (additions during year)	200	–	–	Trading Account, Stock (1st Jan.)	3,519	4	6
Freehold Mill	3,000	–	–	Dividend Account	90	–	–
Engines, Boilers, and Shafting (1st Jan.)	500	–	–	Commission Account	519	11	8
Cards, Bobbins, etc. (1st January)	900	–	–	Bank Charges	32	11	1
Do. (additions during year)	300	–	–	Sales	32,106	14	5
Materials Account	18,469	15	7	Sales Ledger Balances	6,000	–	9
Dyeing and Finishing	1,216	3	6	Purchase Ledger Balances	4,810	9	10
Carriage	533	1	10	Discount on Sales	511	15	8
Trade Expenses	195	12	4	Bad Debts Account *Cr.*	116	9	3
Motive Power	691	7	8	Bills Payable	2,220	–	–
				Cash	32	11	9
				Bank *Cr.*	988	6	5
				Discount on Purchases	371	9	9

	£	s.	d.	£	s.	d.
Wages—						
Mill	8,437	16	9			
Mechanics and Joiners employed in Repairing	142	1	9			
				8,579	18	6

Stock, 31st December, £3,699 19s. 7d. Depreciation: write off Machinery 7½ per cent per annum; Engines, Boilers, and Shafting, 10 per cent per annum; Cards, Bobbins, etc., 25 per cent per annum; Additions to be depreciated for half a year: Reserve 3 per cent of Debtors' Balances for Discount and £200 for Bad Debts Reserve, 5 per cent of Creditors' Balances for Discount. Take into account the following: The Rent of Telephone, £10, has been charged to Trade Expenses, and paid for year ending 30th September next; Insurance, the Fire Policy for £8,000 at a premium of 10s. per cent expires at Midsummer next; Rates, the District Rate for half-year ending 31st March next, is not

yet paid or entered in the books, this rate is 2s. in the £ on the rateable value of the mill, £200; Preference Dividend paid up to 30th June; Managing Director is entitled to 10 per cent bonus on the net profit for the year after charging Debenture Interest. You are required to prepare Trading and Profit and Loss Account and Balance Sheet. (*West Riding of Yorkshire.*)

27. (*a*) What is an "Appropriation Account"? Prepare such an account and enter therein items which in your judgment properly belong to it. In this connection, would "Preliminary Expenses" and "amounts written off goodwill" be proper items to place on its debit side?

(*b*) Explain the following terms—

(1) A charge against profits. (2) An appropriation of profits.

Support your explanations by practical examples of how accountants view and interpret their meaning.

(*c*) Under the Companies Act, 1929, Assets are to be distinguished, as being "Fixed" and "Floating." Assets not falling under these headings are numerous. Name a few of them, and discuss the circumstances in which they arise.

28. Draw up a Trading and a Profit and Loss Account for the year, and Balance Sheet as at 31st December, of the Oil and Gas Motor Co., from the following information—

BALANCES (31ST DECEMBER)

	£		£
Land and Buildings	5,000	Erecting, Fitting, and Carriage	2,400
Machinery and Plant	8,800	Repairs, Renewals and Maintenance	800
Patterns	3,300	Coal, Coke, Gas and Water	450
Stock-in-Trade (1st Jan.)	9,000	Printing, Advertising, and Stationery	250
Office Furniture and Fittings	400	Rent, Rates, Taxes, and Insurance	260
Loose Tools (1st January)	2,500	Travelling and Commission	1,400
Patents	1,000	General Expenses	450
Sundry Debtors	10,500	Discounts and Bad Debts Reserve (1st January)	200
Cash in hand	100	Directors' Fees	100
Profit and Loss Account (1st January) *Dr.*	4,270	Interest on Debentures	900
Subscribed Capital	20,000	Bank Interest and Commission	70
Debentures 6%	15,000	Legal and Accountancy Charges	150
Sundry Creditors	7,000	Royalties Paid	200
L. and N. Bank, Ltd., Overdraft	900		
Sales	40,000		
Purchases	19,000		
Manufacturing Wages	11,800		

Write off depreciations from: Land and Buildings 3 per cent, Machinery and Plant 5 per cent, Patterns 10 per cent, Patents 10 per cent, Office Furniture 5 per cent, and make a provision of 6 per cent on the Sundry Debtors for Discounts and Bad Debts.

On 31st December, the Stock was valued at £9,500, and the Loose Tools at £2,300. (*Chartered Accountants.*)

REVISION EXERCISE XII

1. Prepare a ruling of a Purchase Invoice Analysis Book of any business you are acquainted with, and show how a Purchase Ledger may thus be dispensed with for a business which pays all accounts on a fixed monthly pay-day. (*Chartered Accountants.*)

2. E, F and Co., Timber Merchants, of Liverpool, sell a quantity of timber on 1st February for £350 to J., J. & Co., Builders, of Manchester, and draw on them at three months, charging interest at 5 per cent per annum and bill stamp. E, F & Co., after one and a half months, discount the bill at 4 per cent, with their bankers, and the same is duly met at maturity. Show how the bill should be drawn and accepted, and make the Ledger entries as they should appear in the books of the two firms. (*Chartered Accountants.*)

3. Jones & Co., of London, consign to Smith & Co., of Melbourne, 50 tons of steel at £12 10s. per ton plus insurance and freight, which cost 15s. per ton, and in due course receive from Smith & Co. an Account Sales dated 31st December, as follows—

ACCOUNT SALES OF 50 TONS STEEL, EX "ORMUZ"

Capt. Robinson, from London, sold on account of Jones & Co., 31st December, 19..—

SALES—10 tons Steel @ £16 10s. per ton	£165 - -		
20 " " @ £16 " "	320 - -		
10 " " @ £15 10s. " "	155 - -		
		£640 - -	
CHARGES—Customs Entry and Stamps	15 -		
Unloading, Weighing, Storing, Rent	15 - -		
Fire Insurance . . .	1 - -		
Commission 5% £640 . .	32 - -		
		48 15 -	
		£591 5 -	

Stock of Steel on hand, 10 tons,

E. & O. E.

Melbourne, 31st December, 19..

SMITH & Co.

Write up the Consignment Account in detail in Jones & Co.'s books to 31st December, 19.., and show the profit to that date. (*Chartered Accountants.*)

4. W. Lone and T. Stanley are trading as partners in the firm of Lone, Stanley & Co., profits being shared as follows: W. Lone, $\frac{2}{3}$rds; and T. Stanley, $\frac{1}{3}$rd. The following is the Balance Sheet of Lone, Stanley & Co., 31st December—

	£		£
W. Lone, Capital Account	2,000	Cash	200
T. Stanley . . .	1,800	Sundry Assets. . .	27,600
Sundry Creditors . .	24,000		
	£27,800		£27,800

On the 1st January next, they admit M. Maxwell as a partner, on the following terms—

(*a*) Profits are to be divided as to $\frac{4}{8}$ths to W. Lone, $\frac{3}{8}$ths to T. Stanley, and $\frac{1}{8}$th to M. Maxwell.

(*b*) M. Maxwell to bring in £1,000 as his Capital.

(*c*) A Goodwill Account is to be raised for £1,800, this sum to be credited to the old partners.

(*d*) W. Lone is at liberty to withdraw £400 of his capital on 1st January.

(*e*) M. Maxwell to have a salary of £400 per annum out of profits.

(*f*) Interest to be allowed on partners' Capital Accounts at the rate of 5 per cent per annum. No interest on ordinary Drawings to be taken into account. Each partner is at liberty to draw £40 a month in anticipation of

profits (in the case of M. Maxwell the £40 is in anticipation of profits and salary).

Assume that all transactions mentioned above have been carried out. The profits for the year ended the 31st December, before making any allowance for M. Maxwell's salary or for interest on partners' capital amounted to £2,510.

Show the partners' Capital Accounts at 31st December. (*Lancashire and Cheshire Union.*)

5. A and B, without being in partnership, enter into Joint Ventures outside their respective businesses for the purchase and sale of imported food-stuffs. Each conducts part of the transactions after conference with the other, and they agree to have half-yearly settlements, on the basis of cash transactions bearing interest at 5 per cent.

The following items represent their dealings for the half-year ending 30th June—

Jan. 2. B buys on two months' terms, Currants, £400.
,, 3. A pays Dock Dues on same, £10.
,, 30. A buys for Cash, tinned Salmon, £180.
Feb. 1. B sells Currants and receives Cash, £480, less 2½ per cent.
,, 2. B pays for Currants, less one month's Interest at 5 per cent per annum.
Mar. 7. A sells for Cash, Salmon, £100, less 1½ per cent discount.
,, 12. A sells on Credit, Salmon, £40.
,, 17. A buys Almonds, £200.
April 1. B buys Figs, £100.
,, 2. B pays Freight on Figs, £5.
,, 6. B pays Railway Dues on Salmon, £4.
,, 18. A sells Almonds, £80, less 2½ per cent.
,, 21. A sells Almonds, £35.
,, 21. A receives Cash for Almonds, £78.
May 1. B sells whole consignment of Figs for Cash, £95.
,, 3. A sells for Cash balance of Salmon, £30.
,, 15. A sells for Cash balance of Almonds, £90.

Prepare Accounts showing how matters stand between A and B on 30th June. (*Incorporated Accountants.*)

6. How would you recommend the organizing of a book-keeping system of a manufacturer's business, so that the Personal Account Ledgers could be separately agreed? (*Chartered Accountants.*)

7. What is the percentage rate of Gross Profit on—

(1) The *sale price* of goods purchased for the sum of £1,000, and sold for £1,333 6s. 8d.?

(2) The *purchase price* of goods bought for £783 6s. and sold for £979 2s. 6d.? (*Chartered Accountants.*)

8. Describe the system of book-keeping most suitable to one of the following businesses: *Manufacturer*, who pays for his materials by Bill at end of each month, pays for all items of the nature of expenses by cheque weekly; occasionally hands over to his creditor a customer's acceptance. Or *Retailer*, whose sales are almost entirely for cash; he pays all his accounts at end of following month; all cash goes through Bank; he wishes to ascertain in one set of Books the gross results of his trading, separating the goods into three departments. (*West Riding of Yorkshire.*)

9. From the following particulars compile the accounts for the year ended 31st December, to be submitted to the Annual Meeting of the members of a Golf Club.

	£	s.	d.
Entrance Fees and Subscriptions received on account of last year (these were estimated at £9 9s.)	10	10	–
Subscriptions received	1,050	–	–
Entrance Fees received	73	10	–
Entrance Fees and Subscriptions received on account of next year	52	10	–
Locker Rents received	35	–	–
Green Fees received	120	–	–
Expenses, including Rent, for current year (of these £800 have been paid)	900	–	–
Liabilities of last year, paid this year (these were estimated at £70)	60	–	–
Subscriptions owing for current year £21, taken as	12	12	–
Stock (House Account)	150	–	–
Capital Expenditure, including Lease, last year	1,000	–	–
" " this year	200	–	–
" " written off	250	–	–
Profit on House Account, including Refreshments, after providing for the Staff	50	–	–
Cash in hand	124	18	–
Renewals paid	91	3	–
Interest paid	20	–	–
Loan on security of Lease	500	–	–
Surplus from last Account	494	–	–
Fee to Treasurer's Clerk for current year, not paid	20	–	–

(*Chartered Accountants.*)

10. The following was the Balance Sheet of a firm upon dissolution of partnership, " A " retiring, " B " continuing the business. The partners' shares as to Capital and Profits were A, three-fourths; B, one-fourth.

	£		£
Capital A	9,000	Freehold	12,000
Capital B	3,000	Debtors	3,000
Loan from A	2,000	Cash	1,000
Creditors	1,800	Stock	1,000
Reserve	1,200		
	£17,000		£17,000

A agreed to buy the Freehold for £10,000. The Stock was taken over by B at 10 per cent discount. The debtors realized 86 per cent of their value. The costs of the liquidation exclusive of the above deficiencies were £470. What did each partner receive? Show Cash Account, Liquidation Account, and Partners' Accounts. (*Chartered Accountants.*)

11. Explain the difference between a Trading Account and a Profit and Loss Account, and state in which account you would place the following items, giving your reasons—

Purchases,	Carriage and Freight,	Depreciation,
Debenture Interest,	Allowances,	Bad Debts,
Wages,	Commission,	Advertising,
Sales,	Stocks on hand,	Returns,
Discounts,	Fuel,	Packages,
Directors' Fees.		

(*Chartered Accountants.*)

12. The Speedy Motor Cab Co., Ltd., was registered with a Nominal Capital of £30,000, divided into 10,000 Ordinary Shares of £1 each, and 20,000 6 per cent Preference Shares of £1 each.

From the following " Trial Balance " prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date—

TRIAL BALANCE

	Dr. £	s.	d.	Cr. £	s.	d.
Ordinary Share Capital Account				10,000	–	–
Preference Share do.				18,267	–	–
Calls in arrear on Preference Shares	8	10	–			
Stock in hand (1st January)	1,305	8	7			
Cash in hand	28	9	3			
Bank Overdraft				603	5	4
Cab Earnings				18,697	19	5
Salaries	1,187	10	3			
Tyres	4,906	3	11			
Insurance	1,521	8	–			
General Expenses	278	9	–			
Plant and Machinery	1,451	9	–			
Fixtures and Fittings	1,126	17	–			
Taxicabs	28,000	–	–			
Debtors and Creditors	89	17	3	710	2	–
Reserve for Renewals (1st January)				500	–	–
Profit and Loss Account (Balance, 1st January)	748	3	5			
Rent of Taximeters	465	10	–			
Licences	312	8	–			
Petrol (less Payments by Drivers)	874	8	6			
Training Drivers	103	5	4			
Washing and Cleaning Cabs, etc.	2,606	8	2			
Repairs	1,810	12	5			
Rent, Rates, and Taxes	953	8	7			
Lighting	189	5	4			
Directors' Fees	250	–	–			
Preliminary Expenses	458	9	6			
Legal Expenses and Audit Fee	102	5	3			
	£48,778	6	9	£48,778	6	9

Before preparing the Accounts, the following adjustments are necessary—

Charge Depreciation on Plant and Machinery, and Fixtures and Fittings, at 10 per cent per annum.

Charge Depreciation on Taxicabs at 5 per cent per annum.

Reserve for Renewals, £500.

" " Rates owing, £18 7s. 6d.

" " Insurance paid in advance, £170 1s. 6d.

The takings of the cabs on 30th and 31st December amounted to £171 8s. 3d., but were not paid in by the Drivers until 1st January.

Write off one-third of the Preliminary Expenses Account.

The value of the Stock in hand as on 31st December was agreed at £1,486 10s. 9d. (*Royal Society of Arts.*)

CHAPTER XIII

(2) JOINT STOCK COMPANIES (*contd.*)

HAVING in the previous chapter treated of the constitution and incorporation of companies, of the provisions of the Companies Act, of the statutory requirements up to and including the allotment of shares, of the kinds of capital, shares, and debentures, of the various methods of issuing shares and debentures, and finally of the elements of joint stock company book-keeping, including the Trading and Profit and Loss Account and Balance Sheet, it is proposed now to deal with matters usually considered somewhat more difficult—matters which will require the student's close and careful attention.

PURCHASE OF A BUSINESS

Vendor, Purchase Price, Going Concern. In numerous cases a joint stock company is formed for the purpose of acquiring and working an old-established business. The person who sells the business to the company is termed the **vendor**, and the money paid for the business is called the **purchase price.** A company could not pay to the vendor all the cash it receives for its shares and debentures; it must retain some as working capital. The purchase price is, therefore, generally paid, partly in cash, and partly in shares. If the prospectus showed that the vendor was taking the purchase price wholly in cash, it would give rise to suspicions on the part of the public; it would look as if the vendor had little faith in his own business, and was glad to be rid of it. In a good business, therefore, it will generally be found that the vendor takes a large number of shares in the company, thereby fostering the confidence of the general public. The shares issued to the vendor may be valued either at par or at a premium, according to the agreement made with him. When such shares are allotted to the vendor they may be either fully or partly paid (usually the former). Sometimes, the business is taken over by the company as **a going concern,** i.e. exactly as it stands, all the assets including the cash, and all the liabilities, and without any stoppage of business. Sometimes, the cash of the old business is not taken over; sometimes, the liabilities are not taken over, but left for the vendor himself to discharge. These matters, however, are arranged by agreement.

Goodwill. A company usually purchases, not only the assets, but also the goodwill of the business, that is, the right to the volume of trade connected with the business. In some cases, the amount paid for goodwill is stated, in other cases, it has to be ascertained. If the company takes over only the assets, then the goodwill will be

the excess of the purchase price over the value of the assets. Thus, if the assets amounted to £10,000, and £15,000 was paid for the business assets and goodwill, then £5,000 would denote the value of the goodwill. If the company takes over both assets and liabilities, the difference between the assets and liabilities will show the capital value of the business. The excess of the purchase price over the capital value of the business will give the amount paid for goodwill. Thus, if the assets amount to £15,000 and the liabilities to £6,000, then £9,000 would denote the capital value of the business. If the purchase price of the business is £13,000, then £4,000 would be the amount to debit to a Goodwill Account.

Business Purchase Account. In journalizing the entries referring to the purchase of a business, the procedure is greatly simplified by opening a Business Purchase Account. This account is debited with the purchase price of the business, and the account of the vendor is credited with the same. This has the advantage of fixing the liability to the vendor. All the assets, including the amount for goodwill, are then debited to their respective accounts, and the total credited to the Business Purchase Account. The Business Purchase Account is then debited with the total of the liabilities taken over, and the liabilities are credited to their particular accounts. When these entries are posted, the Business Purchase Account will be found to balance; and all the assets and liabilities will have been brought into the books. It is possible, of course, to avoid these *three* entries and to show the transaction by means of *one* Journal entry, namely, by *debiting* all the assets, including the goodwill, and *crediting* the liabilities and also the amount due to the vendor. Students, however, are often confused when they attempt this method, that it is advisable to follow the Business Purchase Account method for preference. Another very good method is to have *one* Journal entry for the asset accounts and *one* for the liability accounts. This is very simple and leaves the vendor's account in credit for the amount due to him.

Formula for Purchase of a Business. The following detailed steps should prove useful to the student—

1. *Debit* Business Purchase Account and *credit* Vendor with the agreed purchase price.
2. *Debit* each asset, including goodwill, and *credit* Business Purchase Account with the total.
3. *Debit* Business Purchase Account with the total of the liabilities taken over, and *credit* each separate liability.
4. *Debit* Vendor, and *credit* Share Capital Account and Debentures Account, with the shares and debentures issued to him in part payment of the purchase price of the business.
5. *Debit* Application and Allotment Account (or Shareholders and Debenture Holders Account) with the amounts due from

shareholders and debenture holders, and *credit* Share Capital Account and Debentures Account.

6. *Debit* Cash Account with the balance taken over (if any) and the amounts received from shareholders and debenture holders; *credit* Cash Account with any sums paid to the vendor.

Example. A Joint Stock Company with a Registered Capital of £150,000, consisting of 75,000 Ordinary Shares of £1 each, and 75,000 6 per cent Preference Shares of £1 each, and also £30,000 Debentures in bonds of £100 each, purchased as a going concern for £100,000 the business of Messrs. Rowell & Co., as per the following particulars—

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Bills Payable . . .	5,000	–	–	Cash	3,000	–	–
Sundry Creditors . .	15,000	–	–	Bills Receivable . .	1,500	–	–
Capital . . .	70,000	–	–	Book Debts . . .	26,500	–	–
				Freehold Premises . .	30,000	–	–
				Plant and Machinery . .	15,000	–	–
				Stock	12,000	–	–
				Furniture and Fixtures .	2,000	–	–
	£90,000	–	–		£90,000	–	–

The purchase price was to be paid thus: £25,000 in fully-paid Ordinary Shares, £25,000 in fully-paid Preference Shares, £25,000 in Debentures, and the balance in Cash. The remainder of the shares and debentures were offered to the public, and were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show the Company's Balance Sheet. (For Journal entries, see next page.)

Dr. CASH BOOK *Cr.*

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To Balance	3,000	–	–	By Rowell & Co. . .	25,000	–	–
„ Ordinary Shareholders .	50,000	–	–	„ Balance c/d . . .	83,000	–	–
„ Preference Shareholders .	50,000	–	–				
„ Debenture Holders .	5,000	–	–				
	£108,000	–	–	£	108,000	–	–
To Balance b/d . . .	83,000	–	–				

BALANCE SHEET

Capital and Liabilities	£	s.	d.	*Property and Assets*	£	s.	d.
Nominal and Issued Capital:				Freehold Premises . .	30,000	–	–
Ordinary Share Capital—				Goodwill	30,000	–	–
75,000 Shares of £1 each .	75,000	–	–	Plant and Machinery . .	15,000	–	–
Preference Share Capital—				Fixtures and Fittings . .	2,000	–	–
75,000 Shares of £1 each .	75,000	–	–	Stock	12,000	–	–
Debentures—				Sundry Debtors . .	26,500	–	–
300 Bonds of £100 each .	30,000	–	–	Bills Receivable . .	1,500	–	–
Sundry Creditors . .	15,000	–	–	Cash at Bank . . .	83,000	–	–
Bills Payable . . .	5,000	–	–				
£	200,000	–	–	£	200,000	–	–

JOURNAL

	Dr. £	s.	d.	Cr. £	s.	d.
Business Purchase A/c . .	100,000	–	–			
To Vendors . . .				100,000	–	–
Purchase price of business as per Agreement dated						
Cash	3,000	–	–			
Bills Receivable . . .	1,500	–	–			
Sundry Debtors . . .	26,500	–	–			
Freehold Premises . .	30,000	–	–			
Plant and Machinery . .	15,000	–	–			
Stock	12,000	–	–			
Furniture and Fixtures .	2,000	–	–			
Goodwill	30,000	–	–			
To Business Purchase A/c.				120,000	–	–
Sundry Assets acquired as per Agreement dated............						
Business Purchase A/c . .	20,000	–	–			
To Bills Payable . .				5,000	–	–
,, Sundry Creditors. .				15,000	–	–
Sundry liabilities as per Agreement dated.....................						
Rowell & Co. (Vendors) .	75,000	–	–			
To Ordinary Share Capital (25,000 Shares of £1 each.)				25,000	–	–
To Preference Share Capital (25,000 Shares of £1 each.)				25,000	–	–
To Debentures . . (250 Bonds of £100 each.)				25,000	–	–
Shares and Debentures issued as fully paid in part payment of the purchase price, as per Agreement dated............						
Ordinary Shareholders . .	50,000	–	–			
To Ordinary Share Capital. 50,000 Shares of £1 each.				50,000	–	–
Preference Shareholders .	50,000	–	–			
To Preference Share Capital 50,000 Shares of £1 each.				50,000	–	–
Debenture Holders . .	5,000	–	–			
To Debentures . . 50 Bonds of £100 each.				5,000	–	–

NOMINAL CAPITAL SHOWN IN THE BOOKS

Special Procedure of Certain Companies. In the Colonies, particularly Australia and New Zealand, and also with some British companies, mostly Scotch, the practice obtains of opening accounts in the Ledger to record, not only the Issued and Called-up capital, but also the Nominal Unissued, and Uncalled capital as well. English criticism takes the line that such a method is a needless elaboration, and also a violation of principle, in that it turns the double entry books into statistical records.

Example. A Limited Company was registered with a Nominal Capital of £150,000 in shares of £1 each. Forty thousand of these shares were issued to the vendor as fully paid in part payment of the purchase price of the business. The public subscribed 60,000 shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, and 5s. per share on a first call. All the money was duly received except the call of 5s. on 100 shares. Record the whole of these facts in the company's books, and show how the Capital would appear on the Balance Sheet.

JOURNAL

	Dr. £	s.	d.	Cr. £	s.	d.
Unallotted Shares A/c . .	150,000	–	–			
To Nominal Capital A/c .				150,000	–	–
150,000 Shares of £1 each, as per Memorandum of Association.						
Vendors	40,000	–	–			
To Unallotted Shares A/c.				40,000	–	–
40,000 Shares of £1 each, issued as fully paid, as per Agreement dated..						
Uncalled Capital A/c . .	60,000	–	–			
To Unallotted Shares A/c.				60,000	–	–
60,000 Shares of £1 each subscribed by the public.						
Application A/c . . .	7,500	–	–			
To Uncalled Capital A/c .				7,500	–	–
2s. 6d. per share on 60,000 shares.						
Allotment A/c . . .	7,500	–	–			
To Uncalled Capital A/c .				7,500	–	–
2s. 6d. per share on 60,000 shares.						
First Call A/c . . .	15,000	–	–			
To Uncalled Capital A/c .				15,000	–	–
5s. per share on 60,000 shares.						

LEDGER

NOMINAL CAPITAL

Dr.		£	s.	d.		Cr.	£	s.	d.
						By Unallotted Shares . .	150,000	–	–

UNALLOTTED SHARES

Dr.		£	s.	d.		Cr.	£	s.	d.
	To Nominal Capital	150,000	–	–		By Vendors . .	40,000	–	–
						„ Uncalled Capital	60,000	–	–

UNCALLED CAPITAL

Dr.		£	s.	d.		Cr.	£	s.	d.
	To Unallotted Shares . .	60,000	–	–		By Application A/o	7,500	–	–
						„ Allotment A/o .	7,500	–	–
						„ First Call A/o .	15,000	–	–

APPLICATION ACCOUNT

Dr.		£	s.	d.		Cr.	£	s.	d.
	To Uncalled Capital	7,500	–	–		By Cash . .	7,500	–	–

ALLOTMENT ACCOUNT

Dr.		£	s.	d.		Cr.	£	s.	d.
	To Uncalled Capital	7,500	–	–		By Cash . .	7,500	–	–

FIRST CALL ACCOUNT

Dr.		£	s.	d.		Cr.	£	s.	d.
	To Uncalled Capital	15,000	–	–		By Cash . .	14,975	–	–

BALANCE SHEET

Capital and Liabilities	£	s.	d.	£	s.	d.
Nominal Capital—						
150,000 Shares of £1 each . .	150,000	–	–			
Less Unallotted Shares—						
50,000 Shares of £1 each . .	50,000	–	–			
Issued Capital	100,000	–	–			
Less Uncalled Capital—						
10s. per share on 60,000 shares .	30,000	–	–			
Called-up Capital	70,000	–	–			
Less Calls in Arrear . . .	25	–	–			
Paid-up Capital				69,975	–	–

NOTE. The balance of the Unallotted Shares Account is deducted from the Nominal Capital in the Balance Sheet.

If a company has different kinds of shares, then separate accounts must be opened for each kind, thus: Unallotted Ordinary Shares, Unallotted Preference Shares, Uncalled Ordinary Capital, Uncalled Preference Capital, etc.

INTEREST ON CALLS

Interest on Calls in Arrear. The Articles of Association usually empower the directors to charge interest on calls not paid within the specified time.

Provisions of Table A. Article 13 of Table A, Companies Act, 1929, reads as follows—

> If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of five pounds per cent per annum from the day appointed for the payment thereof to the time of the actual payment, but the directors shall be at liberty to waive payment of that interest wholly or in part.

The same or similar provisions are usually contained in special Articles.

Entries in the Books. Where the Share Ledger does not contain any columns for interest, accounts will have to be opened in the General Ledger for the shareholders concerned. The following Journal entry will be necessary—

Shareholder	*Dr.*
To Interest Receivable	*Cr.*

The Interest Receivable will be taken as a profit to Profit and Loss Account, and the shareholders will appear as Debtors on the Balance Sheet. Where the Share Ledger Account is in two parts, a Cash Account and a Share Account, the interest will be shown in the Share Ledger itself, being debited to the shareholders concerned from the Interest column in the Call Book. In the General Ledger the interest will be treated impersonally, i.e. the shareholders' names will not appear. The following Journal entry will be required—

Outstanding Interest	*Dr.*
To Interest Receivable	*Cr.*

The Interest Receivable will be treated as a profit in the Profit and Loss Account, and the Outstanding Interest will appear as an asset in the Balance Sheet.

Interest on Calls paid in Advance. The Articles of Association usually give the directors of a company power to allow interest on calls paid in advance.

Provisions of Table A. Article 16 of Table A, Companies Act, 1929, reads as follows—

> The directors may, if they think fit, receive from any member willing to advance the same, all or any part of the moneys uncalled and unpaid upon

any shares held by him; and upon all or any of the moneys so advanced may (until the same would, but for such advance, become presently payable) pay interest at such rate (not exceeding, without the sanction of the company in general meeting, six per cent) as may be agreed upon between the member paying the sum in advance and the directors.

The same or similar provisions are usually contained in special Articles.

Entries in the Books. Where the Share Ledger is not provided with columns for interest, accounts will be opened in the General Ledger for the shareholders concerned. The following Journal entry will be required—

Interest Payable	*Dr.*
To Shareholder	*Cr.*

The Interest Payable will be a loss in the Profit and Loss Account, and the shareholders will appear as Creditors on the Balance Sheet. Where the Share Ledger Account is in two parts, a Cash Account and a Share Account, the interest will be shown in the Share Ledger itself, being credited to the shareholders from the Interest column in the Call Book. In the General Ledger the interest will be treated impersonally, the following Journal entry being made—

Interest Payable	*Dr.*
To Outstanding Interest	*Cr.*

The Interest Payable will be transferred to Profit and Loss as a loss, and the Outstanding Interest will be a liability on the Balance Sheet. In many cases, however, interest will be paid on the due date, and only the following Cash Book entry (payments side) will be required.

By Interest on Calls in Advance

This amount will be debited to an account of the same name in the General Ledger, and, at balancing time, will be transferred like other losses to Profit and Loss Account.

FORFEITURE OF SHARES

What Forfeiture Means. It has been shown in the previous chapter, that if a shareholder fails to pay the sums due from him when the directors make a call, such sums are treated as calls in arrear. Should the shareholder not pay the money within a further stipulated time, the directors generally have power conferred on them by the Articles of Association to cancel such shares, after due notice has been given to the shareholder, and to appropriate to the company's own use any money already paid up on them. These shares are then said to be forfeited, and the shareholder ceases to be a member of the company. The articles must be strictly complied with, otherwise the forfeiture may not be valid; and particulars of all forfeited shares must be given in the Annual Return.

Provisions of Table A. As regards forfeiture of shares the following provisions of Table A, which are typical of most Articles of Association, should be carefully noted—

23. If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the directors may, at any time thereafter during such time as any part of such call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued.

24. The notice shall name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed the shares in respect of which the call was made will be liable to be forfeited.

25. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the directors to that effect.

26. A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the directors think fit.

27. A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding, remain liable to pay to the company all moneys which, at the date of forfeiture, were presently payable by him to the company in respect of the shares, but his liability shall cease if and when the company receive payment in full of the nominal amount of the shares.

29. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum, which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of the share, or by way of premium, as if the same has been payable by virtue of a call duly made and notified.

NOTE RE (24) ABOVE. Students must not be of the opinion that—at the expiration of fourteen days—the secretary of the company must proceed to send a notice re Calls in Arrear with a view to their forfeiture. There may be considerable delay, and careful inquiry is prosecuted before the notice (hinting forfeiture) is sent.

Circumstances occasioning delay in payment of calls are often extenuating, and the secretary of a company is diffident of taking steps to enforce the payment of arrears.

Liability of Ex-shareholder. The ex-shareholder is, strictly speaking, still liable, even after forfeiture, for the sum owing on the shares. But the amount is, for all practical purposes, a bad debt, and is usually written off. Moreover, a shareholder of substance cannot simply abstain from paying calls and expect his shares to be forfeited. It is the duty of the directors to compel payment if it can be obtained. The ex-shareholder's liability ceases, however, so soon as the company receives payment in full for the particular shares forfeited.

Entries Required when Shares are Forfeited. The full amount called up on the shares has, of course, been credited to Capital Account in the expectation of receiving the money; these sums must now be debited back to the Share Capital Account in order to cancel

them. The amount actually paid on the forfeited shares, i.e. on Application, or on Application and Allotment, must be transferred to a " Forfeited Shares Account," or to a " Cash Paid on Forfeited Shares Account." Again, the amounts owing on the shares have been debited to the Allotment Account and to the Call Account when the money was called up; these amounts must now be credited back to the Allotment Account, or Call Account as the case may be, in order to cancel them.

An alternative method also obtains in practice. This procedure is to debit the Share Capital Account with the full amount called up on the forfeited shares, and to credit the same amount to a Forfeited Shares Account. The Forfeited Shares Account is then debited with the amounts owing on the shares, and these amounts are credited back to the Allotment Account, or Call Account, as the case may be. This method is not recommended by the editor.

Example. A Limited Company has an Issued Capital of £60,000 in shares of £1 each, 15s. per share called up. The directors resolve that 160 shares, on which the first and second calls of 5s. per share each had not been paid, should be forfeited. Make the necessary Journal entries and show the effect on the Company's Balance Sheet.

First Method—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
	Share Capital A/c (*full amount called up*)	120	–	–			
	To Forfeited Shares A/c (*amount paid*)				40	–	–
	" First Call A/c (*amount due*)				40	–	–
	" Second Call A/c (*amount due*)				40	–	–
	160 Shares Nos............to........... forfeited by order of the Board for non-payment of calls. Resolution No............dated...............						

Alternative Method—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
	Share Capital A/c	120	–	–			
	To Forfeited Shares A/c				120	–	–
	160 Shares of £1 each, 15s. called up, forfeited, as per Resolution dated..........................						
	Forfeited Shares A/c	80	–	–			
	To First Call A/c				40	–	–
	" Second Call A/c				40	–	–
	Amount of unpaid calls written back.						

Both Methods—

BALANCE SHEET

Capital and Liabilities	£	s.	d.	£	s.	d.
Issued Capital—						
60,000 Shs. of £1 ea., 15s. called up	45,000	–	–			
Less 160 „ „ forfeited .	120	–	–			
59,840				44,880	–	–
Forfeited Shares A/c . . .				40	–	–

In the Share Ledger a note would be made *in red ink,* in the shareholder's account, stating that the shares were forfeited, and giving the date of the directors' resolution.

If the *Nominal* Capital has been entered in the books, the following Journal entry will be required—

JOURNAL *Dr.* *Cr.*

		£	s.	d.	£	s.	d.
	Unallotted Shares A/c . .	160	–	–			
	To Uncalled Capital A/c .				40	–	–
	„ Forfeited Shares A/c . .				40	–	–
	„ First Call A/c . . .				40	–	–
	„ Second Call A/c . .				40	–	–
	160 shares Nos............to............ forfeited for non-payment of calls, as per Resolution No. ....dated........................						

What is Done with the Cash Received on Forfeited Shares. The money received on forfeited shares is, as we have seen, placed to the credit of a Forfeited Shares Account. This money is, of course, a profit to the company, but it is a *capital* profit, and must not be taken to Profit and Loss Account. It is suggested that the money may be treated as divisible profit, but such procedure is unusual, and is condemned by the great majority of accountants. The amount may be transferred to a special Reserve Account, to be used to write down capital expenditure or losses. If it is proposed to re-issue the shares, the amount is left in the Forfeited Shares Account, to be dealt with whenever such re-issue takes place.

RE-ISSUE OF FORFEITED SHARES

Power to Re-issue. As the forfeiture of shares is not a reduction of capital within the meaning of the Companies Act, the Articles of Association of a company usually give the directors power to

re-issue forfeited shares. Such shares may be issued at par, at a premium, or even at a reduced price. The reduction, however, should not exceed the amount already paid up on the shares, as otherwise this would be tantamount to the issue of shares at a discount, which is only legal under special conditions as stated on page 384.

Treatment of Forfeited Shares Account Balance. Any balance of the Forfeited Shares Account, after the re-issue of the forfeited shares, may be transferred to a special Reserve Account, or even to the Profit and Loss Account unless the Articles forbid it. The latter procedure cannot, however, be recommended, as such profit is not a revenue profit, having never been earned; and it is not, therefore, in the true sense, a profit available for dividend. By some accountants, the balance left in the Forfeited Shares Account is first shown as a premium on the re-issue of the shares, and then transferred to a special Reserve Account.

Entries on Re-issue. On re-issue, a Journal entry is made, debiting the person to whom the shares have been re-allotted with the amount he has agreed to pay for them, debiting Forfeited Shares Account with the reduction in price (if any), and crediting Share Capital Account with the called-up value of the shares. By some accountants the Forfeited Shares Account is debited with the full amount standing to its credit, thus closing the account; the difference between this amount and the reduction in price allowed to the allottee of the shares is then credited to a Premium on Shares Account. Other accountants prefer to deal with the matter impersonally in the General Ledger, and open a Forfeited Shares Re-issued Account.

Example. The directors of the aforesaid Company resolved that the previously mentioned shares, namely 160 shares of £1 each, 15s. per share called up, 5s. per share paid up, should be issued to John Smith, credited with 15s. per share paid, for £100. Make the necessary entries in the company's books.

First Method—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
	John Smith (*personal account in General Ledger*) . . .	100	–	–			
	Forfeited Shares A/c . .	20	–	–			
	To Share Capital A/c . .				120	–	–
	Re-issue of 160 Shares of £1 each, credited with 15s. per Share paid, for £100, as per Resolution No..................dated........................						

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To John Smith	100	–	–

NOTE. As £120 of Capital (¾ of £160) is being issued for £100, the balance of £20 must be made good out of the Forfeited Shares Account.

Second Method—

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
	John Smith	100	–	–			
	Forfeited Shares A/c . .	40	–	–			
	To Share Capital A/c . .				120	–	–
	,, Premium on Shares A/c .				20	–	–
	Re-issue of 160 Shares of £1 each, credited with 15s. per Share paid, for £100, as per Resolution dated						

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To John Smith	100	–	–

Third Method—

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
	Forfeited Shares Re-issued A/c .	120	–	–			
	To Share Capital A/c . .				120	–	–
	Re-issue of 160 Shares of £1 each, 15s. per share credited.						
	Forfeited Shares A/c	20	–	–			
	To Forfeited Shares Re-issued A/c				20	–	–
	Amount transferred to make good reduction in price of shares issued, £120 issued for £100.						

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Forfeited Shares Re-issued A/c	100	–	–

DEBENTURE INTEREST

Definition. Debenture Interest is the interest payable each year on the money borrowed by the company on debenture bonds. It is usually paid half-yearly, and is subject to deduction of income tax at the current rate for unearned income.

Entries for Debenture Interest. The interest is debited to a separate Debenture Interest Account. Entries are made as follows—

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	*Cr.* £	s.	d.
	Debenture Interest . . .	800	–	–			
	To Debenture Holders . .				640	–	–
	„ Income Tax A/c . .				160	–	–
	Half-year's Debenture Interest, less tax at 4s. in the £.						

CASH BOOK *Cr.*

Payments	Bank £	s.	d.
By Debenture Holders	640	–	–

Sometimes, however, a Journal entry is not made. A cheque is drawn for the net amount of interest payable, and is entered as follows—

CASH BOOK *Cr.*

Payments	Bank £	s.	d.
By Debenture Interest *less tax*	640	–	–

The Debenture Interest Account is closed, at balancing time, by transfer to Profit and Loss.

Deduction of Income Tax. A limited company is empowered by law to deduct income tax at the current rate in the £ from all interest

paid to debenture holders. The amount of the tax is not remitted direct to the Revenue Authorities, but is placed to the credit of the Company's Income Tax Account. Later on, before calculating the profits on which the company pays tax, the amount of the debenture interest will be added to the profits shown in the company's accounts, and thus the Inland Revenue Authorities will recover the tax deducted by the company from its debenture holders.

Debenture Interest Charged in the Appropriation Account. Some limited companies charge the debenture interest in the Appropriation Account. From an accountant's point of view this is certainly not correct. Such interest is undoubtedly a charge against the profits, and not an appropriation of it.

How the Debenture Interest is Paid. In large companies, a cheque is drawn for the net amount of the interest payable, and posted to the debit of the Debenture Holders Account, thus closing it. The cheque itself is paid in to the credit of a separate Debenture Interest Account at the company's bank, and a separate Debenture Interest Pass Book is kept. Cheques or warrants are then drawn on this account for each debenture holder's portion, and sent to the debenture holders concerned. When the debenture holders clear their cheques, the amount will be debited by the bank to this particular Debenture Interest Account, and eventually this account will be closed. When the number of debenture holders is not very large a separate Debenture Interest Bank Account may not be opened; the debenture interest cheques or warrants may be drawn on the ordinary Bank Account.

Unclaimed or Unpaid Debenture Interest. If at balancing time all the debenture holders have not cleared their interest cheques, there will be an unpaid balance of debenture interest. The double entry books themselves will be quite clear. The Debenture Interest Account will have been debited "*To Debenture Holders*" and "*To Income Tax Account,*" and credited "*By Profit and Loss*"; or, alternatively, it will have been debited "*To Cash,*" and credited "*By Profit and Loss*"; in either case the Debenture Interest Account will be closed. To avoid making a one-sided entry, the balance of the Debenture Interest Bank Account must, consequently, be shown on both sides of the Balance Sheet; on the liabilities side as "*Unclaimed (or Unpaid) Debenture Interest,*" and on the assets side as "*Cash at Bank on Debenture Interest Account.*" Very often, however (especially in exercises and examination papers), there is no separate statement of cash; the money with which to pay this debenture interest is included in "the Cash at Bank."

Debenture Interest less Tax. In exercises and examination papers the student will, sometimes, find in the Trial Balance an item like the following—

Debenture Interest *less tax* at 4s. £640

In the Profit and Loss Account the Debenture Interest must be raised to its proper sum, as the full debenture interest, not part of it, is a proper charge against profits. The amount of the tax must be ascertained and added back to the debenture interest. The amount of the tax must also be deducted from the Rates and Taxes Account, or Income Tax Account, if the company has paid its income tax; if not, it must be shown on the liabilities side of the Balance Sheet as "*Income Tax Account Cr. balance.*" The amount of the tax is found by arithmetical process. The tax is one-fifth of the gross amount taxable. The amount stated as " Debenture Interest " is, therefore, equal to four-fifths of the full amount. To raise the amount to the proper sum, apply the formula: £640 × $\frac{5}{4}$, which will yield the *gross* amount taxable, i.e. £800.

DIVIDENDS

What is a Dividend? A dividend (Latin *dividendum* from *dividere* = to divide) is a share of the profits of a joint stock company, the profits being *divided* among the shareholders. Strictly speaking, the term " dividend " applies only to the *total* sum divisible; it is also used, however, to denote the *portion* received by each individual shareholder. Dividends are proposed or recommended by the directors and declared by the company in general meeting, the shareholders having usually to pass a resolution sanctioning the proposed distribution. The dividend then becomes a liability to the shareholders as from the date of its declaration, but does not bear interest against the company.

Interim Dividend. An interim (Latin *interim* = in the meantime) dividend is a dividend declared before the close of the company's financial period, either out of profits that are accruing, or out of profits brought forward from a previous period.

Provisions of Table A. The following provisions of Table A, which are typical of most Articles of Association, should be carefully noted—

89. The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors.

90. The directors may from time to time pay to the members such interim dividends as appear to the directors to be justified by the profits of the company.

91. No dividend shall be paid otherwise than out of profits.

92. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid on the shares; but if and so long as nothing is paid up on any of the shares in the company, dividends may be declared and paid according to the amounts of the shares. No amount paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this article as paid on the share.

93. The directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or

reserves which shall, at the discretion of the directors, be applicable for meeting contingencies, or for equalizing dividends, or for any other purpose to which the profits of the company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the company or be invested in such investments (other than shares of the company) as the directors may from time to time think fit.

94. If several persons are registered as joint holders of any share any one of them may give effectual receipts for any dividend or other moneys payable on or in respect of the share.

95. Any dividend may be paid by cheque or warrant sent through the post to the registered address of the member or person entitled thereto. (A similar provision is laid down for joint holders.)

96. No dividend shall bear interest against the company.

Entries for Dividend. When a dividend is declared on any kind of shares a separate Dividend Account is opened. Entries are made as follows—

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		£	s.	d.	£	s.	d.
	Preference Share Dividend	1,400	–	–			
	To Preference Shareholders				1,120	–	–
	„ Income Tax A/c				280	–	–
	Dividend less tax @ 4s. in the £.						
	Appropriation A/c	1,400	–	–			
	To Preference Share Dividend				1,400	–	–
	Balance transferred.						

CASH BOOK *Cr.*

Payments	Bank £	s.	d.
By Preference Shareholders	1,120	–	–

Sometimes the entry is made direct to the Appropriation Account thus—

JOURNAL *Dr.* *Cr.*

		£	s.	d.	£	s.	d.
	Appropriation A/c	1,400	–	–			
	To Preference Share Dividend				1,400	–	–
	Dividend on....................Shares at ....%						
	Preference Share Dividend A/c	280	–	–			
	To Income Tax A/c				280	–	–
	Tax on £1,400 @ 4s. in the £.						

CASH BOOK *Cr.*

Payments	Bank £	s.	d.
By Preference Share Dividend A/c	1,120	–	–

How the Dividend is Paid. In large companies a cheque is drawn for the net amount of the dividend (i.e. less tax, if any), and the amount is posted to the debit of the Dividend Account (or Shareholders' Account, as the case may be), thus closing it. The cheque itself is paid in to the credit of a separate Dividend Account at the company's bank, and a separate Dividend Pass Book is kept. Cheques, or **dividend warrants**, as they are called, are then drawn on this account for each shareholders' portion, and are sent to the shareholders concerned. When the shareholders clear their dividend warrants, the amounts will be debited by the bank to this particular Dividend Account, and eventually this account will be closed. When the number of shareholders is not very large, a separate Dividend Account may not be opened at the bank; the dividend warrants may be drawn on the ordinary Bank Account.

Deduction of Income Tax. A limited company is empowered by law to deduct income tax from all dividends paid to its shareholders. There is a notice attached to the dividend warrant, stating how much tax has been deducted, and showing how the amount of the dividend cheque has been arrived at. The amount of the tax deducted by the company is placed to the credit of its Income Tax Account, to reduce any debit already there. A limited company is under no obligation to remit to the Revenue Authorities the tax deducted on any particular dividend. The company pays tax on the whole of its profits (the assessment being based—for any given year—on the preceding year's profit).

Unclaimed or Unpaid Dividends. If, at balancing time, there is any balance in the Dividend Pass Book, it will arise from the fact that some of the shareholders have not presented their dividend warrants for payment. This balance must be shown as a liability on the company's Balance Sheet; for the company will still be liable to pay the money, at any rate for a period of twenty years, after which time the dividends may be forfeited. The double entry books themselves will be quite clear. For the Dividend Account will have been credited "*By Appropriation Account,*" and debited "*To Cash*" and "*To Income Tax Account*"; or, alternatively, it will have been debited "*To Shareholders' Account*" and "*To Income Tax Account,*" and credited "*By Appropriation Account.*" In either case, therefore, the Dividend Account will be closed. To avoid making a one-sided entry, the unpaid balance of the dividend

must consequently be shown on both sides of the Balance Sheet. On the liabilities side it will appear as "*Unclaimed* (*or Unpaid*) *Dividends*"; on the assets side as "*Cash at Bank on Dividend Account.*" Very often, however (especially in exercises and examination papers), there is no separate statement of cash; the money with which to pay the dividend is included in the general "Cash at Bank."

Dividend "Free of Tax." A notice sometimes appears to the effect that dividends are *free of tax*. This statement does not mean that such dividends are not taxed; since, as a limited company is taxed on the whole of its profits, it is indirectly taxed on any dividend it pays away. A limited company is not, in any case, *obliged* to deduct income tax from any ordinary dividend it pays to its shareholders. It *may* do so if it likes. The statement that an ordinary dividend is to be "free of tax" simply means that the shareholder will receive the *gross* dividend instead of the *net*; in other words, that the company and not the shareholder will bear the tax.

It should be noted that "free of tax" dividend is very seldom paid on preference shares, and such a payment would be irregular unless the shares were issued on those terms. If dividends on preference shares not so issued were paid "free of tax," the ordinary shareholders, who are entitled to receive all surplus profits, would be deprived of the amount represented by the tax.

Preference Dividend less Tax. The Trial Balances of exercises and examination papers sometimes contain an item similar to the following—

Preference Dividend *less tax* at 4s. £1,600

In the Appropriation Account the amount of the tax should be ascertained and added back again. The amount of the tax must also be deducted from the Taxes Account if the company has paid its income tax; if not, it should be shown on the liabilities side of the Balance Sheet as "*Income Tax Account Cr. balance.*" The full dividend should be debited in the Appropriation Account, and the amount of the tax written back to the credit of the Taxes Account. The Income Tax Account of a limited company should, generally speaking, show on the debit side the amount of tax payable by the company, and on the credit side the amounts of tax recovered from the shareholders, debenture holders, and others. The tax is one-fifth of the gross dividend payable. Therefore, the amount shown £1,600 = $\frac{4}{5}$ of gross amount. To raise the Preference dividend to its full amount, invert the fraction $\frac{4}{5}$ and proceed as follows: $\frac{5}{4}$ of £1,600 = £2,000 being the *gross* dividends upon which tax is chargeable.

Dividend Equalization Fund or Reserve. In prosperous years the profits of a limited company are usually not all divided, but a certain proportion is put aside as a provision for less prosperous times

that is to say, a portion of the profits is transferred to a Dividend Reserve Account or a Dividend Equalization Fund. The company is then able to draw upon this fund in order to make good the shortage of profit in a bad year. The surplus of prosperous years are thus used to level up the less profitable years; this is sound business policy. It is far better for a company to pay a normal dividend every year, than to pay a very large dividend one year and the next year a very small one, or perhaps no dividend at all. The effect of good, regular dividends will be to keep the market price of the shares steady, and to enable the company to obtain the necessary credit, without which its business operations will be seriously restricted. A " Reserve Account " built up out of profits can likewise be drawn upon for this purpose.

Scrip Dividend. Financial and other companies sometimes take power in their articles to pay free of tax " Scrip " dividends, that is, to distribute, by way of dividend, shares or debentures in other companies.

A company is obliged, under penalty of £10 for each offence (maximum £100), to issue with the dividend a statement in writing showing the gross dividend, the income tax deducted, and the net amount payable.

Example. The accounts of the *Excelsior Trading Co., Ltd.*, show a net profit of £20,060 for the year ended 31st December. The directors resolve as follows—

1. To pay a dividend of 5 per cent (less tax at 4s. in the £) on the Preference Shares (£80,000).
2. To pay a dividend of 10 per cent, free of tax, on the Ordinary Shares (£100,000).
3. To transfer £3,000 to the Reserve Fund.
4. To transfer £2,000 to a Dividend Reserve Fund.
5. To carry the balance forward.

Make the necessary entries to carry out the above, and show the Ledger accounts affected.

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		Dr. £	s.	d.	*Cr.* £	s.	d.
	Profit and Loss A/c . . To Appropriation A/c . Balance transferred.	20,060	–	–	20,060	–	–
	Appropriation A/c . . To Preference Share Dividend A/c . . . 5% on £80,000.	4,000	–	–	4,000	–	–
	Preference Share Dividend A/c . . . . To Income Tax A/c . Tax at 4s. in the £ on £4,000.	800	–	–	800	–	–

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	Dr. £	s.	d.	Cr. £	s.	d.
Appropriation A/c . .	10,000	–	–			
To Ordinary Share Dividend A/c . . .				10,000	–	–
10% on £100,000.						
Appropriation A/c . .	3,000	–	–			
To Reserve Fund A/c .				3,000	–	–
Amount transferred.						
Appropriation A/c . .	2,000	–	–			
To Dividend Reserve A/c				2,000	–	–
Amount transferred.						

CASH BOOK *Cr.*

Payments	Bank £	s.	d.
By Preference Share Dividend A/c	3,200	–	–
„ Ordinary Share Dividend A/c	10,000	–	–

LEDGER

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Appropriation A/c . .	20,060	–	–	By Net Profit .	20,060	–	–

Dr. APPROPRIATION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Pref. Share Dividend .	4,000	–	–	By Profit and Loss A/c . .	20,060	–	–
„ Ord. Share Dividend .	10,000	–	–				
„ Reserve Fund .	3,000	–	–				
„ Div'd Reserve .	2,000	–	–				
„ Balance c/f .	1,060	–	–				
	£20,060	–	–		£20,060	–	–

Dr. PREFERENCE SHARE DIVIDEND ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Income Tax A/c	800	–	–	By Appropriation A/c . .	4,000	–	–
„ Cash . .	3,200	–	–				
	£4,000	–	–		£4,000	–	–

Dr. ORDINARY SHARE DIVIDEND ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Cash . .	10,000	–	–	By Appropriation A/c . .	10,000	–	–

Dr. RESERVE FUND ACCOUNT Cr.

						£	s.	d.
					By Appropriation A/c . .	3,000	-	-

Dr. DIVIDEND RESERVE ACCOUNT Cr.

						£	s.	d.
					By Appropriation A/c . .	2,000	-	-

Dr. INCOME TAX ACCOUNT Cr.

						£	s.	d.
					By Pref. Share Div. A/c . .	800	-	-

PREMIUMS ON SHARES AND DEBENTURES

Nature of these Profits. Premiums received by a limited company on the issue of its shares or debentures are *capital* profits, i.e. not profits available for dividend, and are retained in the business as working capital. Unless, however, the Articles of Association expressly forbid it, there seems nothing to prevent a company from taking such profits to its Profit and Loss Account, as divisible profits, although such a practice is strongly condemned by all the leading accountants. The term " capital profits " is used in contradistinction to " revenue profits," which are gains made by trading.

How Dealt With. These premiums are usually transferred to a Capital Reserve Account, and are then available for writing off capital losses, or for writing down the value of intangible assets, such as Goodwill. The ordinary Reserve Fund is often drawn upon for the purpose of dividends, hence the necessity for putting such profits to a *special* Reserve Account. In the case of a debenture premium, the expenses of issue (if any) are a first charge against it before it is transferred to a Capital Reserve Account. Where the debentures are redeemable, the premium is often transferred to a Debenture Redemption Account, thus forming the nucleus of the fund for repayment.

DISCOUNT ON DEBENTURES

Nature of these Losses. The discount allowed by a limited company on the issue of its debentures is a *capital* loss. The latter term is used in contradistinction to " revenue loss," which is a loss sustained by trading. In many cases there are other expenses connected with the issue, such as brokers' commission (where the application form bears a broker's stamp), underwriting commission,

etc.; the whole is then debited to a special account entitled "Cost of Issue of Debentures."

How Dealt With. Section 44 of the Companies Act, 1929, enacts that the amount of such commission and discount must be separately stated on the Balance Sheet until the whole is written off. If the debentures are irredeemable, the amount of such expenses should, none the less, be gradually written off like Preliminary Expenses but over a long period. Where the debentures are redeemable, the amount of such expense is generally written off over the period of the debenture loan, e.g. if the debentures are repayable at the end of five years, then one-fifth of the cost of issue, or discount, will be written off each year. Where, however, the debentures are redeemable by annual drawings of a fixed amount, the discount must be written off each year in proportion to the amount of debentures outstanding; so that those years which enjoy the larger portion of the debentures shall bear the larger portion of the discount. The debentures themselves will be shown on the Balance Sheet at their nominal or face value.

Example 1. A Limited Company issued £8,000 Debentures at a discount of 5 per cent, repayable at the end of five years. Show the Discount Account in the Ledger for this period.

Dr. DEBENTURE DISCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Debentures .	400	-	-	1	By Profit and Loss ($\frac{1}{5}$ of £400)	80	-	-
						„ Balance c/d .	320	-	-
		£400	-	-			£400	-	-
2	To Balance b/d	320	-	-	2	By Profit and Loss ($\frac{1}{5}$ of £400)	80	-	-
						„ Balance c/d.	240	-	-
		£320	-	-			£320	-	-
3	To Balance b/d	240	-	-	3	By Profit and Loss ($\frac{1}{5}$ of £400)	80	-	-
						„ Balance c/d.	160	-	-
		£240	-	-			£240	-	-
4	To Balance b/d	160	-	-	4	By Profit and Loss ($\frac{1}{5}$ of £400)	80	-	-
						„ Balance c/d.	80	-	-
		£160	-	-			£160	-	-
5	To Balance b/d.	80	-	-	5	By Profit and Loss ($\frac{1}{5}$ of £400)	80	-	-

Example 2. A Limited Company issued £8,000 Debentures at a discount of 5 per cent, repayable by annual drawings of £1,600. Show the Discount Account in the Ledger for the period of duration of the debentures.

The Debentures outstanding			1st year will be			£8,000
„	„	„	2nd	„	„	6,400
„	„	„	3rd	„	„	4,800
„	„	„	4th	„	„	3,200
„	„	„	5th	„	„	1,600
						£24,000

Therefore $\frac{80}{240}$ths of the Discount must be written off in the first year, $\frac{64}{240}$ths the second year, and so on. Or, more shortly, the Discount must be written off in the ratio of the years taken backwards. Now $5 + 4 + 3 + 2 + 1 = 15$; and the proportions will therefore be $\frac{5}{15}$ths, $\frac{4}{15}$ths, $\frac{3}{15}$ths, $\frac{2}{15}$ths, and $\frac{1}{15}$th respectively.

Dr. DEBENTURE DISCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Debentures .	400	–	–	1	By Profit and Loss ($\frac{1}{3}$ of £400)	133	6	8
						„ Balance c/d .	266	13	4
		£400	–	–			£400	–	–
2	To Balance b/d .	266	13	4	2	By Profit and Loss ($\frac{4}{15}$ of £400)	106	13	4
						„ Balance c/d.	160	–	–
		£266	13	4			£266	13	4
3	To Balance b/d.	160	–	–	3	By Profit and Loss ($\frac{1}{5}$ of £400)	80	–	–
						„ Balance c/d.	80	–	–
		£160	–	–			£160	–	–
4	To Balance b/d.	80	–	–	4	By Profit and Loss ($\frac{2}{15}$ of £400)	53	6	8
						„ Balance c/d.	26	13	4
		£80	–	–			£80	–	–
5	To Balance b/d.	26	13	4	5	By Profit and Loss ($\frac{1}{15}$ of £400)	26	13	4

ARREARS OF DIVIDEND ON CUMULATIVE PREFERENCE SHARES

Treatment in Books and on Balance Sheet. As has previously been stated, the difference between a cumulative preference share and one that is not cumulative is, that with the latter the dividend is payable only if there are sufficient profits available during the particular year in which the dividend accrued; whereas with the cumulative preference share the dividend, if it cannot be paid out of the current year's profits, becomes a first charge on the subsequent years' profits. The question then arises as to how such arrears of dividend should be treated. Should they be brought into the books as an ordinary liability, or should they be left until there

are sufficient profits available to pay them? Some accountants believe in bringing them into the books as an actual liability, and journalize them as follows—

Arrears of Preference Share Dividend *Dr.*
To Outstanding Preference Dividend *Cr.*

The arrears then appear on the assets side of the Balance Sheet, as a loss carried forward, while the Outstanding Dividend figures on the liabilities side. When there are sufficient profits available to pay them, then the " Arrears of Preference Share Dividend Account " will be closed by transfer to the Appropriation Account, and the payment of the arrears will be debited to the " Outstanding Preference Dividend Account," thus closing it. The great majority of accountants, however, think that no entry should be made in the books at all; that the liability does not accrue until there are sufficient profits available to pay it. Therefore the arrears are best treated as a *contingent* liability, a note being appended in the Balance Sheet to that effect.

PRELIMINARY EXPENSES

Nature. All expenses incidental to the formation, registration, incorporation, flotation, and commencement of business are, in the case of a joint stock company, debited to a special account entitled " Preliminary Expenses." They are also called " Formation Expenses " and " Promotion Expenses." They comprise the following—

1. Fees of accountants for investigating the books of the business and giving a certificate of profits; fees of valuers for making professional inspections and reports.
2. Solicitors' fees for drawing up contracts, prospectus, Memorandum and Articles of Association.
3. Registration fees, stamp duties on the nominal capital, stamp duties on the Memorandum and Articles of Association, on contracts, and on letters of allotment.
4. Cost of printing prospectus, application forms, Memorandum and Articles of Association, share certificates, debenture bonds, letters of allotment, letters of regret, call notices, etc.
5. Cost of advertising, postage of allotment letters, letters of regret, share certificates, notices of call, etc.; cost of Share Registers, seal, etc.
6. Commission on placing shares, i.e. for obtaining subscriptions; commission to underwriters; brokerage, i.e. an allowance to brokers for all applications made on forms bearing the brokers' stamps or names.

How Dealt with in the Books. Where the Preliminary Expenses are not borne by the vendor, the amount will appear in the company's books. It is in *the nature* of Capital Expenditure, and it has

been suggested that as a matter *of law* it might be upheld as an Asset permanently. It is, however, the universal practice to write it off against Revenue over a period of years, usually three to five, according to the size of it. In examination work, Preliminary Expenses should not be written off unless specific instructions are given to do so. The balance of the account not written off appears on the assets side of the Balance Sheet until the whole amount has been finally extinguished.

DEBENTURES AS COLLATERAL SECURITY FOR LOAN

Collateral Security. A collateral security (Latin *collateralis* = by the side of) is a subsidiary or secondary security, that is, a security in addition to the principal security. A collateral security is not intended to be realized except in the event of the principal security proving insufficient. Some joint stock companies issue debentures as collateral security for a bank overdraft or a bank loan.

Entries in the Books. The amount of the Debentures so issued is entered "short" on the Balance Sheet, i.e. not extended into the money columns, and a note is added explaining that the Debentures have been issued as security for a bank loan or overdraft as the case may be. It is the practice of some accountants to credit the amount of such debentures to the Debentures Account itself, and to debit it to a Debenture Suspense Account, the latter appearing temporarily on the assets side of the Balance Sheet. When the loan has been repaid, or the overdraft extinguished, and the Debentures released, then a Journal entry is passed crediting the Debenture Suspense Account, thus closing it, and debiting the Debentures Account, thus reducing the latter to its original amount.

Example. A Limited Company has an authorized Debenture issue of £80,000 in bonds of £100 each. £50,000 of such bonds have been issued at par to the public, and the money has been duly received. £10,000 of the remainder has been issued to its bankers as collateral security for a loan of £8,000. How should these facts be recorded in the company's Balance Sheet?

First Method—

BALANCE SHEET

Capital and Liabilities	£	s.	d.	£	s.	d.
Authorized Debentures—						
800 Bonds of £100 each . .	80,000	–	–			
Issued Debentures—						
500 Bonds of £100 each at par .				50,000	–	–
Loan from Bankers . . .				8,000	–	–
(Collaterally secured by issue of £10,000 Debentures.)						

Alternative Method—

BALANCE SHEET

Capital and Liabilities	£	s.	d.	*Property and Assets*	£	s.	d.
Authorized Debentures— 800 Bonds of £100 each . . £80,000				Debenture Suspense A/c . (Debentures issued as collateral security for Loan per contra.)	10,000	-	-
Issued Debentures— 600 Bonds of £100 each .	60,000	-	-				
Loan from Bank . .	8,000	-	-				

PROFITS PRIOR TO INCORPORATION

Nature. A Limited Company frequently takes over a business from a date prior to the date of its own incorporation. If the company, and not the vendor, is entitled to any profits earned prior to its incorporation—and this is often the case in modern agreements—such profits are not available for dividend. A company cannot legally earn profits before its official existence, and a public company not until it has a certificate entitling it to commence business. Such profits are, therefore, capital profits.

How Dealt With. These profits should be put to a Special or Capital Reserve Account. They should not be transferred to the general or ordinary Reserve Fund, i.e. the one which is formed by accumulations out of Revenue. Profits are often transferred from this Reserve to the Profit and Loss Account in order to make up the profits of less successful years, so that a normal dividend may be paid. If, therefore, capital profits are put to the General Reserve Account, they might inadvertently be paid in dividends, and the directors would be liable to refund the money. Where the vendor has waived his claim to the profits earned prior to incorporation, he is usually entitled to interest on the purchase money until such time as it is actually paid. Such interest should certainly be a first charge on any profits prior to incorporation. The balance of the profits may then be used to make good any depreciation of the fixed assets originally acquired by the company, or to write down Goodwill. It is not considered correct to use such profits to write off Preliminary Expenses, as this relieves the new company's profits of a burden which they should equitably bear.

How Ascertained. Strictly speaking, there should, of course, be an actual stocktaking in order that such profits may be accurately ascertained. But where this cannot, without very great inconvenience be done, such profits are ascertained approximately. The first year's trading must be divided into two periods, *before* and *after* incorporation. The profit of the first year is then apportioned either according to *time*, or according to *turnover*; that is, either in the ratio which each period of time bears to the total period of time, or in the ratio which each period's turnover bears to the

total turnover for the year. The profits available for distribution will be only such profits as have been earned *subsequent* to the date of incorporation. Of these two methods the apportionment *according to turnover* is considered to yield the fairer result. The apportionment according to time is based on the assumption, wholly unwarranted, that the turnover is constant month by month. This may be so in some businesses, but in many others there are considerable fluctuations in the monthly volume of trade. Another method, however, has recently been advocated which, partakes of both the former methods. This is, to apportion the *gross* profit according to turnover, and the *expenses* according to time. It is claimed for this method that it gives the best results of all.

Example 1. A Joint Stock Company was incorporated on the 1st May to take over a business as a going concern from the 1st January of the same year. The total turnover for the year ending 31st December was £100,000, namely £30,000 for the first period up to 1st May, and £70,000 for the following period. The net profit for the year was £10,080. How should the profits earned prior to incorporation be ascertained?

Apportioning the profits, in the first place, according to the respective periods of time, we get $\frac{4}{12}$ths of £10,080, or £3,360, as the profits earned prior to incorporation; and $\frac{8}{12}$ths of £10,080, or £6,720, as the company's own net profits to be appropriated or divided among the shareholders in whatever way it chooses.

Apportioning the profits, in the second place, according to the respective turnovers, we have $\frac{30000}{100000}$ or $\frac{3}{10}$ths of £10,080, namely £3,024 as the profits prior to incorporation; and $\frac{70000}{100000}$ or $\frac{7}{10}$ths, of £10,080, namely £7,056, as the company's own net profits available for distribution by way of dividend if the directors so resolve.

Example 2. A Joint Stock Company was incorporated on 1st May to take over a business as a going concern from the previous 1st January. The total turnover for the year ending 31st December, was £100,000, namely £30,000 for the period to 1st May, and £70,000 for the following period. The gross profit for the year was £25,060. The expenses for the year amounted to £14,982, which included £750 for directors' fees. How should the first year's profit be apportioned?

Gross Profit for the first period = $\frac{30000}{100000}$ of £25,060 = £7,518.
Gross Profit for the second period = $\frac{70000}{100000}$ of £25,060 = £17,542.
The total Net Profit for the year is £25,060 – £14,982 = £10,078.
The profits *prior* to incorporation will be—

	£
Gross Profit	7,518
Less Expenses $\frac{4}{12}$ths of £14,232 (£14,982 – £750) . .	4,744
	£2,774

The profits *subsequent* to incorporation will be—

		£
Gross Profit		17,542
Less Expenses $\frac{8}{12}$ths of £14,232	£9,488	
„ Directors' Fees	750	
		10,238
		£7,304

LOSS PRIOR TO INCORPORATION

How Treated. Where a company takes over a business from a date prior to its own incorporation, and the trading results for this prior period show a loss, such loss must be added to the Goodwill, being in reality an increase of the purchase price. Should there be no account for Goodwill, one must be opened and debited with this loss. Alternatively, however, such loss could be put to a special Suspense Account, and extinguished by capital profits, such as premiums on shares or debentures. The objection to this latter method is that the new company's profits would be used to make good a loss which they should not legitimately bear. It is consistent, that as a Profit made before the company's incorporation is Capital, a loss may be so treated, but some doubt has been expressed whether the company should not " err on the safe side," and write off such a loss over a period of years.

INTEREST ON CAPITAL, PAID OUT OF CAPITAL

Non-Revenue Earning Period. During the construction of works or buildings which take a long time to complete, a company is unable to earn any income with which to pay dividends on its shares. In such cases it is legal for companies to pay interest on the paid-up share capital during this period, called the non-revenue earning period, and to capitalize the interest, i.e. treat it as part of the cost of the works or buildings so constructed. Certain restrictions are imposed, however, as will be seen from the following paragraph.

Provisions of the Companies Act. Section 54 of the Companies Act, 1929, enacts as follows—

Where any shares of a company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the company may pay interest on so much of that share capital as is for the time being paid up for the period and subject to the conditions and restrictions in this section mentioned and may charge the same to capital as part of the cost of construction of the work or building, or the provision of plant—

Provided that—

(1) No such payment shall be made unless the same is authorized by the Articles or by special resolution.

(2) No such payment, whether authorized by the Articles or by special resolution, shall be made without the previous sanction of the Board of Trade.

(3) Before sanctioning any such payment the Board of Trade may at the expense of the company appoint a person to inquire and report to them as to the circumstances of the case, and may, before making the appointment, require the company to give security for the payment of the costs of the inquiry.

(4) The payment shall be made only for such period as may be determined by the Board of Trade; and that period shall in no case extend beyond the close of the half-year next after the half-year during which the works or buildings have been actually completed or the plant provided.

(5) The rate of interest shall in no case exceed 4[1] per cent per annum, or such other rate as may for the time being be prescribed by Order in Council.

(6) The payment of the interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid.

(7) The accounts of the company shall show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate.

(8) Nothing in this section shall affect any company to which the Indian Railways Act, 1894, as amended by any subsequent enactment, applies.

Other Cases of Interest Paid out of Capital. Parliamentary companies, which are incorporated under special Acts of Parliament, such as railway, dock, harbour, and canal companies, usually have similar powers conferred on them. It is also legal (*Hinds* v. *Buenos Ayres Grand National Tramways Co., Ltd.*, 1906) for joint stock companies to capitalize Debenture Interest, or a portion of it, in those cases where the debentures have been issued for the purpose of raising money to defray the cost of construction of works or buildings, or the provision of plant, which will not be ready for use until a much later period. The Debenture Interest capitalized is added to the value of the Property or Works Account. Interest on Calls in Advance may be paid whether there are profits available or not.

Arguments "for." The arguments in favour of charging Interest on Capital to Capital are briefly as follows—

1. If a company engages with a contractor to erect buildings for it for a certain price, the contractor will include in his price not only the actual cost of construction but also interest on the capital outlay up to date of settlement, and also his customary profit; and, therefore, if the company erects the buildings for itself, and the buildings cannot be made productive until they are finished, the company is entitled to charge to capital not merely the actual capital outlay, but also the interest paid on the capital during the period of construction.

2. That the payment to shareholders of a low rate of interest during the construction of the work is the least expensive method of financing it.

[1] The amount was raised to 6 per cent by the Companies (Interest out of Capital) Order, 1929.

3. That as interest can be paid out of capital in the case of loans and debentures, it ought also to be payable in the case of shares.

4. That if interest has not been so charged a false idea is given of the cost of the undertaking. It can scarcely be fairly said that a concern has cost only £50,000 if the £50,000 has been outstanding for a period and interest has, therefore, been lost on it.

Arguments "against." The counter arguments, i.e. against charging interest on Capital to capital, are the following—

1. The law makes a distinction between capital contributed by shareholders and capital obtained from lenders and debenture holders.

2. Interest on loans and debentures is rightly payable out of capital; for the company's capital exists for the purpose of paying its creditors.

3. Interest on capital during construction of works is not part of the cost of such works, but merely an expense in the obtaining of capital moneys; and should be treated in the same way as commission and brokerage on the placing of a company's shares, or discount on the issue of a company's debentures. That is, it should be temporarily capitalized, and written off against Revenue periodically.

PROFITS AVAILABLE FOR DIVIDEND

Article 91 of Table A of the Companies Act, 1929, directs—

No dividend shall be payable otherwise than out of profits.

The question immediately arises: What are *profits* within the meaning of the Act?

Systems of Ascertaining Profits. There are now four recognized systems of ascertaining profits. The first two, termed "Single Account System" and "Double Account System" respectively have long been known to accountants. The other two are quite recent systems, and are primarily due to lawyers, but have been legally sanctioned by the Court of Appeal. They are, however, regarded by professional accountants as unsound.

Single Account System. Under this system a Balance Sheet is drawn up to represent the true *financial* position of the company. If the assets side of the Balance Sheet exceeds the liabilities side, that is, if the total of the assets (after proper provision has been made for depreciation) exceeds the total of the paid-up capital, liabilities, and all proper reserves, the excess is considered *profit.* And the theory is, that so long as the capital of the company is kept intact (for the creditors and others concerned), i.e. is represented by tangible assets, this excess may be treated as profit available for dividend. This system has been approved by legal authorities in numerous cases.

In *Lubbock* v. *The British Bank of South America, Ltd.*, the latter sold its goodwill and property in Brazil at a considerable profit, which it proposed to distribute in dividend. An action was brought by some shareholders to restrain the company. The Court however, held that the profit was really profit on capital and not part of the capital itself; it was the surplus of the assets side of the Balance Sheet after the paid-up capital and the current liabilities had been deducted; and that the directors, having complied with all the requirements of the Articles of the company, were justified in distributing the profit by way of dividend.

In *Foster* v. *The New Trinidad Lake Asphalte Co., Ltd.*, a book debt of 100,000 dollars was taken over by the New Trinidad Co. It was considered practically worthless at the time, and was not even shown on the Balance Sheet. It was subsequently recovered with 27,000 dollars interest. The directors then proposed to treat the whole of this particular sum as profit available for dividend. An injunction was obtained against them. Mr. Justice Byrne's words were—

> When it is said, and said truly, that dividends are not to be paid out of Capital, the word "Capital" means money subscribed pursuant to the Memorandum of Association, or what is represented by that money. Accretions to that capital may be realized and turned into money, which may be divided among the shareholders, as was decided in *Lubbock* v. *British Bank of South America*. . . . The question of what is profit available for dividend depends upon the result of the whole account fairly taken for the year—Capital as well as Profit and Loss . . . and I do not think that a realized accretion to the estimated value of *one* item of the capital assets can be deemed to be profit divisible among the shareholders without reference to the result of the *whole* account fairly taken.

Double Account System. In the Double Account System the accounts are divided into two parts, Capital Account and Revenue Account. All moneys received from shareholders, stockholders, and debenture holders are entered on the receipts side of the Capital Account, and the assets purchased, acquired, or constructed with this money are shown on the expenditure side of the Capital Account. The Revenue Account shows on the one side the current year's income, and on the other side the current year's expenses in earning it; and the excess of such income over such expenses is considered profit available for dividend.

Lord Justice Buckley in his work on the Companies Acts, writes—

> The language of Table A of 1862, Article 73, was "out of the profits arising from the business of the company." The present Article (No. 91, Companies Act, 1929) is wider. There may be profits arising not from the business, but from other sources. . . .
>
> There is nothing in the general law to forbid the distribution in dividend of profit whensoever arising. Whether it shall be divided or not is for the regulations to determine. . . .
>
> The profits of the business are the credit balances of a Profit and Loss Account properly prepared, having regard to the definition of the business in

the Memorandum of Association. They are the excess of revenue receipts over expenses properly chargeable to Revenue Account. As to what expenses are properly chargeable to Capital and what to Revenue, it is necessarily impossible to lay down any general rule. In many cases, it may be for the shareholders to determine this for themselves, provided the determination be honest and within legal limits. . . .

For the purpose of ascertaining profit available for dividend, Capital Account and Revenue Account are to be treated as separate accounts. The credit balance of Revenue Account is applicable for dividend. Under some forms of articles appreciation of capital, or what may be called credit balance of Capital Account, may also be applicable for dividend. But if there has been loss on Revenue Account, not compensated by appreciation on Capital Account, there is not under any form of Articles profit available for dividend until that loss has been made good. The Articles may, however, allow declaration and payment of dividend without bringing into Revenue Account, or providing for, loss on Capital Account.

Suppose that a Tramway or Railway Company lays its line when materials and labour are both dear, that both subsequently fall, and that the same line could be laid for half the money. . . . Or suppose that a Company has sunk £250,000 in establishing a newspaper which could not be sold for £10,000, or has sunk £900,000 in investments, and that they have depreciated by £250,000, it has in the like sense in each case sustained a loss. Yet if the company's object was not in these respective cases to traffic in tramways or newspapers or securities, but to own them, and to make a profit by their ownership and working as distinguished from their sale, then the loss is a loss on Capital Account, leaving Profit and Loss Account unaffected, and the credit of Profit and Loss Account may be divided in dividend.

In some cases the distinction here pointed to has been conveniently expressed by the use of the terms " fixed capital " and " circulating capital." . . . The appreciation or depreciation of " fixed " capital (property acquired and intended for retention and employment with a view to a profit) need not in every company, but that of " circulating capital " (property acquired or produced with a view to re-sale or sale at a profit) must be the subject of entry in the Profit and Loss Account. . . .

The creditors of the Company are entitled to have the Capital Account fairly and properly kept; but they are not entitled to have losses of capital on Capital Account made good out of Revenue. It is no doubt true that, before arriving at Revenue at all, there are payments which must, in the absence of power in the memorandum to invest the Capital in a wasting property, be made good to Capital, on account of the capital wasted or lost in earning the revenue. For instance, in the common case of leaseholds, which are a wasting property, the whole of the rental may not properly be income; in the case of colliery properties, the difference between the price at which the coal is sold and the cost of working and raising it may not all be income; . . . in the case of a Tramway Company you may not have arrived at net profit before you have set apart a sum to make good deterioration. But when all proper allowances have thus been made in favour of Capital, the balance is Revenue applicable for payment of dividend.

Third System. The third system of ascertaining profits is the one approved by the Court of Appeal in *Lee* v. *Neuchâtel Asphalte Co., Ltd.* An action was brought by the ordinary shareholders to restrain the payment of a dividend, on the ground that the company had lost part of its capital and had not made it good out of profits before declaring the dividend. The Memorandum and Articles of Association were peculiar. They gave the directors power

to invest the capital in a wasting asset (concession for obtaining bituminous rock and mineral products), and expressly exempted them from any obligation to provide for the renewal of any lease or concession or wasting of any asset. The Court held that the excess of the current year's income over the expenses properly chargeable to revenue could be treated as profit available for dividend, without providing for depreciation of fixed assets.

Fourth System. The fourth system of ascertaining profits is the one adopted in *Verner* v. *The General and Commercial Investment Trust, Ltd.*, and approved by the Court of Appeal. The Memorandum allowed the company to invest its capital in speculative securities. At the date of the action the company's Balance Sheet showed there was depreciation of investments, when compared with market price, to the extent of £240,000, £75,000 of which appeared to be a total loss. The current year's profits, ignoring this depreciation, were £23,000, that is, excess of actual income over actual expenditure. The directors proposed to pay a dividend out of this surplus. An action was brought by the stockholders to restrain the payment, on the ground that no provision had been made for this £75,000 loss of capital. The action was dismissed, Lord Justice Lindley's judgment being as follows—

It has been already said that dividends pre-suppose profits of some sort, and this is unquestionably true. But the word "profits" is by no means free from ambiguity. The law is much more accurately expressed by saying that dividends cannot be paid out of capital than by saying that they can only be paid out of profits. The last expression leads to the inference that the capital must always be kept up and be represented by assets which, if sold, would produce it, and this is more than is required by law. Perhaps the shortest way of expressing the distinction which I am endeavouring to explain, is to say that *fixed capital* may be sunk and lost, and yet that the excess of current receipts over current payments may be divided; but that *floating or circulating capital* must be kept up, as otherwise it will enter into and form part of such excess; in which case to divide such excess, without deducting the capital which forms part of it, will be contrary to law.

In *Wilmer* v. *McNamara & Co., Ltd.*, an action was brought by the ordinary shareholders to restrain the company from paying a dividend, on the ground that loss of capital had not been made good before arriving at profits. Lord Justice Stirling delivered judgment to the following effect—

The Articles provide that "no dividend shall be payable except out of profits arising out of the business of the company," and appear to contemplate "profits" as the excess of receipts over all expenditure properly attributable to the year. There is nothing in the Articles to show that the capital of the company (or, rather, assets of the value of those acquired by the company at its formation) must be kept up. I am of opinion that the depreciation of Leaseholds and Goodwill is to be treated as a loss of "fixed" capital, and not as a loss of "floating" or "circulating" capital. And having regard to the decisions in *Lee* v. *Neuchâtel Co.* and in *Verner* v. *General Investment Trust* the injunction must be refused.

QUESTIONS ON CHAPTER XIII

A

1. Explain the terms "vendor," "purchase price," "going concern." How is the vendor usually paid?

2. How is Goodwill ascertained when a company takes over (*a*) only assets, (*b*) both assets and liabilities?

3. What is the object and use of a "Business Purchase Account"? Submit a formula for the purchase of a business.

4. What companies enter the *Nominal* capital in their books? Submit *pro forma* Journal entries in such a case. What objection is raised to this practice?

5. Can Interest be charged on Calls in Arrear? If so, what entries are necessary in the books?

6. Can Interest be paid on Calls in Advance? If so, what entries will be required in the books?

7. What is meant by "Forfeiture of shares"? What is the ex-shareholder's liability for the money owing?

8. State briefly the provisions of Table A with reference to forfeiture of shares.

9. What entries are required in the books when shares are forfeited?

10. What happens to the Cash which has actually been received on forfeited shares? Would it be correct to carry it to the Profit and Loss Account as a divisible profit?

B

1. Can forfeited shares be re-issued? If so, at what price? How should the balance (if any) on Forfeited Shares Account after re-issue be treated?

2. What entries are necessary in the books when forfeited shares are re-issued?

3. What is Debenture Interest? What entries are necessary to record it in the books?

4. What deduction does a company usually make when paying Debenture Interest? Should the Interest be debited to Profit and Loss Account or to the Appropriation Account? Give reasons for your answer.

5. What procedure is adopted in paying Debenture Interest (*a*) in large companies, (*b*) in small companies?

6. Explain the meaning of "unclaimed" or "unpaid" Debenture Interest. How should it be treated in the Company's Balance Sheet?

7. How should the item "Debenture Interest *less tax*" be treated in the Profit and Loss Account, and why?

8. Explain the terms "dividend," "interim dividend." State briefly the provisions of Table A with reference to Dividends.

9. What entries are required in the books when a dividend is declared and paid?

10. Explain the procedure adopted in paying Dividends (*a*) in large companies, (*b*) in small companies.

11. What deduction does a company usually make when paying Dividends, and how does it deal with the amount so deducted?

C

1. Explain the meaning of "unclaimed" or "unpaid" Dividends. How should they be treated in the Company's Balance Sheet?

2. What is meant by the phrase "dividend free of tax"? What is the effect of such a dividend to the shareholder? What is a "scrip" dividend?

3. What is a "Dividend Equalization Fund"? Does it serve a useful purpose?

4. Explain briefly how Premiums on Shares and Debentures are dealt with.
5. What is meant by the terms "capital profits," "capital losses"?
6. How should Discount on Debentures be dealt with (*a*) when the Debentures are all redeemable at the end of a fixed period, (*b*) when the Debentures are redeemable by annual drawings of a fixed amount, (*c*) when the Debentures are irredeemable?
7. State the conditions under which shares may be issued at a discount.
8. Explain the new class of share sanctioned by the Companies Act, 1929.
9. State briefly how the Arrears of Cumulative Preference Dividend should be dealt with (*a*) in the books, (*b*) on the Balance Sheet.
10. What are Preliminary Expenses, and what do they usually include?
11. How should Preliminary Expenses be treated in the company's books?
12. What is meant by "Debentures as Collateral Security for Loan"? What entries are necessary in the company's books and Balance Sheet in such cases?

D

1. Explain the meaning of the phrase "profits prior to incorporation."
2. How should profits prior to incorporation be dealt with?
3. What methods are there of ascertaining the profits earned prior to incorporation? What are the advantages of the different ways?
4. How should a loss prior to incorporation be dealt with?
5. What necessity is there at times to pay interest on capital out of Capital?
6. What are the provisions of the Companies Act, 1929, with reference to the payment of interest out of Capital?
7. In what other cases can interest on capital be paid out of Capital? State briefly the arguments "for" and "against."
8. What systems are there of ascertaining profits available for dividend?
9. Give some account of the Single and Double Account methods of ascertaining profits. Can accretions to Capital be considered as profit available for dividend?
10. Explain the systems of ascertaining profits which were approved by the Court of Appeal in *Lee* v. *Neuchâtel Asphalte Co., Ltd.*, and in *Verner* v. *The General and Commercial Trust, Ltd.*, respectively.

EXERCISE XIII

1. The business of Bruce Bros. & Co. was registered as a Limited Company with a nominal Capital of £400,000, divided into 4,000 shares of £100 each. 500 of these shares were issued as fully paid in part payment of the purchase price of the business. 3,200 of the remaining shares were allotted to the public, and fully called up. 25 4½ per cent Debentures of £1,000 each were also issued and taken up.

On 31st December, the following accounts remained open in the Company's Books: Share Capital Account, £320,000; Fully Paid Shares Account, £50,000; Land and Buildings, £282,000; Sundry Creditors, £18,485; Investments, £8,450; Cash, £6,200; Preliminary Expenses Account (Balance), £1,250; Goodwill Account, £15,000; Calls in Arrear, £525; Debenture Account, £25,000; Stock Account (31st December), £9,000; Plant Account, £78,580; Sundry Debtors, £28,000; Reserve Fund, £8,000; Profit and Loss Account (undistributed balance), £7,520. Prepare a Balance Sheet as on 31st December. (*London Chamber of Commerce.*)

2. Chatenays, Ltd., was registered with a Nominal Capital of £200,000, comprising 100,000 each of Ordinary and 6 per cent Preference Shares of £1 each to purchase the old-established business of Abel Chatenay. The purchase price was agreed at £120,000, payable as to £30,000 in cash; £40,000 in Ordinary Shares of £1 each, and £50,000 in 6 per cent Preference Shares of

£1 each. The company was to discharge the liabilities of the old firm. The balance sheet of Abel Chatenay as on the date of purchase was as follows—

BALANCE SHEET

	£		£
Capital	100,000	Freehold Works . .	36,000
Creditors . . .	14,040	Machinery and Plant .	37,860
Bank Loan . . .	2,000	Sundry Debtors . .	18,764
		Stock	22,440
		Cash in hand . . .	976
	£116,040		£116,040

The balance of both classes of shares was issued to the public and fully subscribed and paid up.

Prepare the accounts necessary to record the above purchase in the company's books, and give the initial balance sheet of the new company. (*R. S. A.*)

3. X is a sole proprietor of a retail stores. His balance sheet at the 31st December, 19.., was as follows—

BALANCE SHEET

		£		£
Creditors		3,000	Property	26,000
Capital Account .	£39,500		Debtors	7,000
Profit . .	3,590		Stock	8,000
			Cash at Bank . . .	2,590
	£43,090			
Drawings .	2,500			
		40,590		
		£43,590		£43,590

His average profits for the past five years have been £3,500.

X decides to convert his business into a Private Limited Company.

(*a*) Sketch the opening balance sheet of the company with a nominal capital which you think is advisable, providing for Preliminary Expenses paid from Cash, and for the allotment to X (or his nominees) of shares for his capital in the business with additional shares for such goodwill as you think reasonable.

(*b*) Show how the estimated sum for Preliminary Expenses is arrived at. (*I. B. L.*)

4. W. Brown, a wine and spirit merchant, had on 31st December, the following assets—

	£
Cash at Bank	500
Cash in hand	50
Port Wine, 5 pipes at £60	300
Sherry, 5 butts at £50	250
Owing by H. Johnson	50
Bill receivable (J. Smith due 12th January next) .	250
Office Furniture	100
	£1,500

His liabilities on the same date were—

Due to A. Robinson	£90
„ W. Walters	60
Bill payable (A. Robinson due 6th January next) .	50
	£200

On 1st January, a company was formed, with a capital of £2,500 in £1 shares, to purchase W. Brown's business; and it was agreed that the purchase price should be an amount equal to his capital in the business on 31st December last, to be paid as to £500 in cash and the balance in fully paid shares, the company taking over all the assets and liabilities of the business. The remaining shares were issued to the public and were duly subscribed, allotted, and paid up.

You are required to make the necessary entries recording the above. (*Royal Society of Arts.*)

5. In January last a company was registered with a Capital of £250,000 in 25,000 shares of £10 each. 20,000 shares were applied for and duly issued, £1 per share being paid on application and £2 per share on allotment. A call of £3 per share was made three months after the date of allotment, and a further call of £3 two months after the date of the first call. Of the first call £55,000 was received, and of the second call £47,500. These moneys were all duly paid over to the bankers of the company.

The company purchased the " Glasdale Iron Works " from Messrs. Wilson & Co. for £125,000, inclusive of all Plant, Machinery, Stocks, etc. They received on account of Purchase Money an allotment of £25,000 in fully paid up shares, and the balance was paid to them in Cash.

Make the necessary Journal and Cash Book entries, giving effect to the above transactions, and post the same to Ledger Accounts. (*London Chamber of Commerce.*)

6. The Weyside Co., Ltd., was formed for the purpose of purchasing the old-established business of Richard Blank, and was duly registered with a nominal Capital of £200,000, in 200,000 shares of £1 each. This capital was divided into 100,000 Ordinary Shares of £1 each, and 100,000 6 per cent Preference Shares of £1 each.

The whole of the Preference Shares and 52,000 of the Ordinary Shares were offered for public subscription, payable, in both classes of shares, as follows—

2s. 6d. per share on application.
2s. 6d. „ „ allotment.
5s. „ „ 15th January (first call).
5s. „ „ 15th February (second call).
The balance as and when required.

The whole of the shares offered to the public were applied for and allotted in due course.

The balance of the Ordinary Share Capital was issued as fully paid to the vendor as part purchase price of his business.

500 Ordinary Shares applied for by *John Smith*, upon which the application money only had been paid, were subsequently forfeited in accordance with the Articles of Association.

Pass the entries necessary to record the above transactions through the books of The Weyside Co., Ltd., and show how they would appear in the Company's Balance Sheet. (*London Chamber of Commerce.*)

7. The prospectus of Messrs. Black & Tan, Ltd., was publicly advertised on 21st January, with the following loan and share issues. *Debentures*, 1,000 4 per cent Debentures of £100 each; the whole of which were offered and fully

subscribed and paid up. *Preference Shares*, 20,000 6 per cent Preference Shares of £5 each; the whole of which were offered and fully subscribed and paid up. *Ordinary Shares*, Nominal 30,000 shares of £5 each; of which 10,000 shares were issued as fully paid to the vendors in part payment of the purchase price of the business. Of the remaining 20,000 shares the public subscribed for 15,000 shares, the whole of which were, in due course, fully paid up, with the exception of the last call of £2 per share on 500 shares, which were subsequently forfeited by resolution of the directors. Pass the necessary entries through the Company's books to record these transactions, and state how they should appear in the Balance Sheet. (*London Chamber of Commerce.*)

8. Set out below is the Balance Sheet as on 31st December, of Messrs. Black & White, who are equal partners—

BALANCE SHEET, 31st December

		£		£
Capital—			Land and Buildings . .	22,065
J. Black .	£30,000		Machinery and Plant. .	12,800
W. White .	20,000		Stock	10,760
		50,000	Sundry Debtors . .	4,250
Sundry Creditors . .		3,700	Cash at Bank . . .	2,750
			Investments . . .	1,075
		£53,700		£53,700

A limited Company with a nominal Capital of £100,000 in Ordinary Shares of £1 each, was formed to acquire and carry on the business.

The vendors guaranteed the Book Debts, and agreed to pay off the Creditors. The Company took over the whole concern with the exception of the Cash and investments, the purchase price being agreed at £60,000.

The vendors were paid, as to £50,000 in fully paid Ordinary Shares, and as to the balance in Cash.

The balance of the Share Capital was taken by the public and fully paid up.

Show the entries necessary to close the books of the old firm, and to open those of the new Company. (*London Chamber of Commerce.*)

9. The Birget Engineering Co., Ltd., purchased certain patents from Short & Sharp, under an agreement dated 30th June, at a cost of £40,000. £1,000 of this sum was to be paid to the vendors in cash, and the balance in fully-paid £10 Ordinary Shares.

Including the shares allotted as fully paid to the vendors, the Company issued capital to the extent of £75,000, consisting of £50,000 in Ordinary Shares of £10 each (£1 on application, £4 on allotment, and £5 at the end of three months), and £25,000 in 5 per cent Preference Shares of £5 each (£1 on application, £2 on allotment, and £2 at the end of three months).

Under the agreement with Short and Sharp, the patents passed to the Company on 9th July, which date was also the date of allotment.

All the shares issued to the public were fully subscribed and duly paid for with the exception of £200 Calls in arrear on the Preference Shares. All cash was paid direct to the Company's Bankers.

Make the necessary entries in the books of the Company to give effect to the above transactions, and show how they would appear in the Company's first Balance Sheet. (*London Chamber of Commerce.*)

10. The Timbuctoo Railway Co. issued its prospectus on 1st January, inviting applications for 200,000 shares of £5 each, payable £1 per share on application, £1 on allotment on 10th January, and £3 on 1st March.

In addition, there was an issue of £1,000,000 3 per cent redeemable Debentures, payable as to 5 per cent upon application, and 95 per cent on 31st January. The whole of the issues were applied for and the cash duly received with the exception that, on 25th March, the directors resolved that 10 shares upon which application and allotment money had been paid should be forfeited for non-payment of the call of £3 per share on 1st March.

Give the usual Journal and Cash Book entries for the above transactions. (*National Union of Teachers.*)

11. A limited Company has a nominal Capital of £250,000, in 25,000 shares of £10 each. Of these, 4,000 shares were issued to the vendors as fully paid, 8,000 shares were subscribed for by the public, and during the first year £5 per share was called up. 2,000 shares were issued, as fully paid, to persons other than the vendors, in payment for property purchased. On the 8,000 shares subscribed for by the public there had been paid at the end of the first year—

On 6,000 shares, the full amount called.
„ 1,250 shares, £4 per share.
„ 500 shares, £3 per share.
„ 250 shares, £2 per share.

The directors forfeited the 750 shares on which less than £4 had been paid.

You are required to submit Journal and Cash Book entries recording the capital transactions of the company, and to set out the capital as it should appear in the Company's Balance Sheet at the end of the first year. (*London Chamber of Commerce.*)

12. On 1st January, the directors of a Company pass a resolution forfeiting 100 Ordinary Shares of £1 each, upon which a deposit of 2s. 6d. per share has been paid but upon which 7s. 6d. due on allotment and a further call of 5s. per share remain unpaid. On the same date they re-issue the shares to James Brown, credited with 15s. per share paid up for £70.

Show in proper form the necessary entries in the financial books of the Company. (*National Union of Teachers.*)

13. After considering the audited accounts of the company for the year ended 31st December, the directors of the Rayon D'Or Publishing Co., Ltd., resolved as follows—

(1) To pay the 6 per cent dividend (less tax) due upon the Preference Stock (50,000).

(2) To pay a dividend of 8 per cent (less tax) upon the ordinary Share Capital (£60,000).

(3) To transfer £1,500 to the Renewals Reserve Account.

(4) To carry forward the balance.

The profits shown by the Profit and Loss Account amounted to £11,400.

Assume the rate of Income Tax payable to be 1s. 2d. in the £. Show the entries necessary to carry out the above resolutions. (*Royal Society of Arts.*)

14. John Brown's Balance Sheet showed the following assets and liabilities—

Freehold Premises, £75,000; Stock, £50,000; Sundry Debtors, £35,000; Patent Rights, £10,000; Cash at Bank, £3,000; Sundry Creditors, £22,000; Bills Payable, £3,000.

The Universal Machinery Co. was formed to purchase the business for the sum of £170,000, payable as to £50,000 in Ordinary Shares, £50,000 in Preference Shares, £50,000 in 4 per cent Debentures, and the balance in Cash, the Company agreeing to take over the liabilities and assets of J. Brown with the exception of the Bank balance.

The registered Capital of the Company was £200,000, divided into 100,000

Ordinary Shares of £1 each, and 100,000 Preference Shares of £1 each. The balances of these shares were issued for subscription by the public, payable 5s. per share upon application, 5s. per share upon allotment, and 10s. per share one month after allotment.

The Ordinary Shares were over-subscribed by 2,000 shares, the Preference Shares were fully subscribed and, including the Vendor's, both classes and the Debentures were duly allotted on 1st February. By 31st May all Cash had been received, except the amounts due on Allotment and Call Accounts with respect to 100 Ordinary Shares and 80 Preference Shares. The directors had paid the vendor the cash due to him; also £2,500 on account of preliminary expenses, and declared forfeited the shares upon which allotment and call money were in arrear.

Give the Journal and Cash Book entries which should appear for the above transactions and the Ledger Account for Forfeited Shares. (*National Union of Teachers.*)

15. The nominal Capital of the Richmond Co., Ltd., consists of 100,000 shares of £1 each. The whole of these shares were issued and were fully called up in four equal instalments of 5s. each.

On 12th February, after due notice, the directors passed a resolution forfeiting the 1,000 shares held by Mr. W. A. Richardson, the final instalment due upon his holding not having been paid.

On 1st May, the 1,000 shares referred to above were issued, as fully paid, to Captain Hayward, who paid £500 for them.

Give the entries necessary to record these transactions in the Company's books. (*London Chamber of Commerce.*)

16. The Blakewell Manufacturing Co., Ltd., issued debentures to the extent of £10,000 at 5 per cent discount. The underwriting costs, etc., amounted to 2½ per cent on the issue. Show how these transactions would appear in the books of the Company and in the Company's Balance Sheet, assuming that neither the discount on the issue nor the underwriting costs, etc., had been written off on the date on which the Balance Sheet was prepared. (*London Chamber of Commerce.*)

17. The Golden Hill Co., Ltd., has a balance of £18,000 to the credit of Profit and Loss Account on 31st December last. On 1st February, it was resolved to appropriate the amount as follows—

£3,600 to Reserve Fund.

Dividend of 10 per cent (*less* Income Tax, 1s. in the £1) on 10,000 Preference Shares of £5 each fully paid.

Dividend of 15 per cent (free of Income Tax) on 10,000 Ordinary Shares of £5 each fully paid, and carry the balance forward.

You are requested to make out (1) Profit and Loss Appropriation Account, (2) Dividend Account, (3) Income Tax Account, and (4) Reserve Fund Account. (*National Union of Teachers.*)

18. What are the two ways of calculating and apportioning profits or losses prior to incorporation? A company acquired profits up to 30th June amounting to £8,000; the date of the incorporation of the company being given as 30th April; whereas, the company took over the assets and liabilities of the concern as on 1st January. Apply the rules of apportionment and determine (both ways) what part of the profit must be capitalized and what part taken to " credit " of Profit and Loss Account. The turnover for the six months ended 30th June was £24,000; half of which amount was earned up to the date of incorporation.

19. Black is in business. His assets, apart from goodwill, are valued at £30,000, and his liabilities are £2,000. White is in business, and his assets,

apart from goodwill, are valued at £20,000, and his liabilities are £1,500. Their profits for the last three years have been—

Black, £600 first year; £700 second year; £800 third year.
White, £400 „ ; £500 „ ; £600 „

They agree to sell their businesses to a Limited Company to be formed with a Nominal Capital of £100,000, divided into 60,000 5 per cent Preference Shares of £1 each and 40,000 Ordinary Shares of £1 each, the company taking over the assets and the liabilities. It is also agreed that Black and White shall each receive fully-paid Preference Shares in consideration of Goodwill (based on 2 years' purchase price of average of past 3 years' profits); the balance of purchase money to be paid in cash. The public subscribe and pay in full for 20,000 Preference Shares and 35,000 Ordinary Shares. The company paid preliminary expenses, £1,500. Show the Vendors' Accounts in the company's Ledger and the Balance Sheet of the company after these transactions have been completed. (*I. B. L.*)

20. The nominal Capital of Messrs. Brownson & Co., Ltd., consists of 8,000 shares of £1 each, and 15s. per share has been called up, all of which have been issued, but 80 shares were forfeited on the 1st February. On the 31st March, the Ledger Balances were as follows—

	£		£
Capital paid up	5,940	Profit and Loss Account *Cr.*	100
Bills Payable	1,000	Interim Dividend	750
Sundry Creditors	2,079	Premises Account	2,000
Bad Debts	220	Salaries	1,200
„ Reserve	120	Sundry Debtors	3,172
Cash	95	Directors' Fees	200
Stock (1st April)	2,056	Furniture and Fittings	412
Reserve Account	500	Wages	5,802
Bank *Cr.*	900	Sales	11,568
Horses, Carts, etc.	478	Purchases	1,525
Preliminary Expenses	500	Carriage	250
Discounts *Dr.*	126	Travelling Expenses	607
Bills Receivable	1,488	Rates, etc., for the half-year ended 30th Sept. last	50
Forfeited Shares Account	10		
Plant and Machinery	1,286		

The Stock at the date of abstracting the above balances amounted to £2,456; Wages (unpaid), £50; Interest on Bank overdraft, £36. Bring up the Bad Debts Reserve Account to 5 per cent on Sundry Debtors. Also provide £60 for Depreciation of Plant and Machinery.

On the 1st April, it was decided to spread the Preliminary Expenses over a period of six years; the amount originally was £600.

After making the necessary adjustments, prepare Trading and Profit and Loss Accounts and Balance Sheet. (*National Union of Teachers.*)

21. The Welsh Manufacturing Co., Ltd., closed its books on the 31st December, with the following balances—

	£		£
Stock at 1st January—		Due to the Ystwyth Banking Co.	2,478
Materials	6,420	Repairs to Machinery	444
Finished Goods	9,400	Wages	15,500
Sundries	530	Salaries	3,400
Materials Purchased	38,000	Insurance	335
Coal and Coke used	1,460	Sales	56,800
Rents, Rates, and Taxes	987	Fittings and Fixtures	650
Sundries purchased (*less* returns)	580	Returns inward	1,740

	£		£
Discount Account *Dr.* balance	448	Travelling and Exhibition Expenses . . .	948
Sundry Debtors . .	4,300	Bad Debts . . .	542
Sundry Creditors . .	2,870	Bad Debts Reserve . .	500
Plant and Machinery .	11,750	Reserve Fund . .	10,000
General Expenses . .	2,007	Bills Receivable . .	735
Premises	10,000	Bills Payable . . .	940
Share Capital (60,000 shares at £1 each, 12s. called on each share, and all paid) . . .	36,000	Profit and Loss Account (1st January) *Cr.* balance	2,388
		Dividend paid. . .	1,800

Stocks on hand 31st December—

Materials	£10,743
Finished Goods	19,430
Sundries	340

You are required to draw up a Trial Balance, a Trading and Profit and Loss Account, and Balance Sheet, as at 31st December, having made the following adjustments—

Depreciate the Plant and Machinery and Fittings 10 per cent each, and the Premises 2 per cent. Insurance paid in advance, £93. Keep the Bad Debts Reserve at £500.

Comment upon the Balance Sheet as to whether you consider the company is in a healthy state, and give suggestions regarding the various items of expenditure, etc. Would you recommend a Dividend; if so, how much? (*Union of Educational Institutes.*)

22. Farndale & MacLeod, Ltd., Wholesale Stationers, Liverpool, have a registered Capital of 75,000 shares of £1 each upon which 15s. per share has been called up. Owing to default by non-payment of calls 500 shares upon which £100 has been received have been forfeited in accordance with the Articles of Association. From the following Trial Balance extracted from the books on the 31st December, prepare Balance Sheet, Trading Account, and Profit and Loss Account—

	£	s.	d.		£	s.	d.
Share Capital . .	55,875	–	–	Wages . . .	10,747	–	–
Forfeited Share A/c.	100	–	–	Salaries . . .	1,020	–	–
Calls in Arrear .	75	–	–	Carriage Inwards .	74	–	–
Leasehold Premises (1st January) .	30,500	–	–	„ Outwards .	119	–	–
Plant and Machinery (1st January) .	11,000	–	–	Insurance . .	87	–	–
Additions to Plant & Machinery during year (all to be taken as made on the 1st July) .	600	–	–	Postages and Telegrams . .	43	–	–
Reserve (1st Jan.) .	2,000	–	–	Rates, Taxes, etc. .	482	–	–
Sundry Creditors .	1,250	–	–	Office Wages . .	389	–	–
Bad Debts . .	272	–	–	Advertising . .	58	–	–
Bank Overdraft .	125	–	–	Repairs to Plant and Machinery . .	61	–	–
Cash in hand . .	10	–	–	Profit and Loss Account (1st Jan.) *Dr.*	100	–	–
Office Furniture (1st January) . .	65	–	–	Discounts Received .	327	–	–
Sales	40,700	–	–	„ Allowed .	2,474	15	–
Stock (1st January).	3,560	–	–	Sundry Debtors .	11,650	–	–
Purchases . .	21,049	–	–	Debentures, 500 at £10 each, bearing interest at 6% per annum . .	5,000	–	–

	£ s. d.		£ s. d.
Debenture Interest half-year to 30th June, paid *less* tax	141 5 –	Advertising Places, etc., at stations as at 1st January, to be written off over 3 years	600 – –
Directors' Fees	200 – –		
Goodwill	10,000 – –		

Reserve £500 for Wages, allow 2½ per cent off Debtors and Creditors for discount. Insurance is prepaid £12. Depreciate Leasehold Premises 1 per cent per annum; Plant and Machinery 5 per cent per annum; Office Furniture 5 per cent per annum. Reserve £125 for Bad Debts. Stock on hand on 31st December, £4,174. (*Lancashire & Cheshire Union.*)

23. The John Smith and Steel Nib Co., Ltd., was registered on and took over the premises of John Smith as from 1st January. John Smith sold his business to the Company upon the following valuation—

	£
Buildings (on Leasehold premises with 21 years to run from 1st January)	7,500
Machinery and Plant	11,650
Stock and Materials	3,872
Goodwill	10,000

The Company took over the Book-debts, which John Smith guaranteed, while he discharged the liabilities existing on 31st December last. The Company was registered with a nominal Capital of £80,000 divided into 80,000 shares of £1 each. Of these 25,000 fully paid shares were allotted to the Vendor as part consideration for the sale of the business, the balance being paid to him in cash. 20,000 shares were offered to, subscribed, and fully paid by the public, with the exception of 200 shares, on which 10s. per share had been paid, and which were forfeited during the year by resolution of the board of directors, owing to the non-payment of the final call of 10s. per share. The books were closed on 31st December, and Stock taken as on that date, amounting to £6,760.

You are required to write off one-twentieth of the value of the Buildings (to provide for the expiration of the Lease); 8 per cent of the Machinery and Plant (as Depreciation); one-fourth of the Preliminary Expenses; and 5 per cent from the Book-debts (as provision against Bad and Doubtful Debts); and then to prepare the Company's Trading Account and Profit and Loss Account for the year to 31st December, and Balance Sheet as on that day. The balances of the Ledger Accounts then, in addition to those resulting from the above transactions, were—

	£		£
Purchases	35,720	Office Expenses	1,006
Rent	76	Directors' Fees	200
Rates and Taxes	211	Sundry Debtors	12,380
Wages	8,241	,, Creditors	4,467
Salaries	917	Preliminary Expenses	400
Manufacturing Expenses	2,163	Bad Debts (of which £187 were in respect of the debts guaranteed by John Smith, and are payable by him	206
Sales	49,798	Cash at Bank	3,599
Returned Purchases	311	Auditors' Fees	100
Discounts Allowed (of which £239 were allowed on debts, which were guaranteed in full by John Smith, and are payable by him)	1,033	Returned Sales	763
		Discounts Received	561

State what dividend you would recommend to be paid to the shareholders, and what balance of Profit and Loss Account would be carried forward to the next year. (*Royal Society of Arts.*)

24. The Postford Manufacturing Co., Ltd., was registered in 19... The nominal Capital of the Company consists of 40,000 5 per cent Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each.

No dividend was paid for the previous year ended 31st December, on either class of share.

The Company's books were closed and balanced, as on 31st December last, on which date the Stock in hand was valued at £9,050.

The balances of the Ledger Account were as follows—

	£		£
Purchases	15,345	Loan on Mortgage (charged on above premises)	8,500
Buildings	24,054	Interest and Bank Charges	402
Fuel	485	Directors' Fees	300
Plant and Machinery	5,654	Stocks on hand (1st Jan.)	8,990
Boiler and Heating Plant	592	Sundry Creditors	10,960
Repairs	472	,, Debtors	9,847
Loose Tools	1,856	Goodwill	4,000
Office Expenses	362	Profit and Loss Account *Cr.* balance (1st Jan.)	206
Sales	37,950	Preference Share Capital	17,520
Wages	13,671	Ordinary Share Capital	8,000
Discount (Debit balance)	83	Unpaid Calls	50
Reserve for Bad and Doubtful Debts (1st January)	250	Bills Payable	2,100
Salaries	1,062	Bank Overdraft	2,721
Postages and Telegrams	116	Cost of New Catalogue	300
Rates and Taxes	239	Cash in hand	10
Travelling Expenses	317		

Before preparing the annual accounts the following adjustments are necessary—

Provision for Bad and Doubtful Debts is to be made at the rate of 5 per cent.

Provide for Depreciation at the following rates—

Plant and Machinery Account, 10 per cent; Boiler and Heating Plant Account, 10 per cent; Loose Tools Account, 20 per cent.

Write off one-third of the cost of New Catalogue and one-half of the Repairs Account against the current year, carrying the balances of these accounts forward to next year.

Prepare a Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

25. MARTIN HANSON & CO., LTD.

TRIAL BALANCE, 31st December

	£	s.	d.		£	s.	d.
Preference Shares: 13,500 £1 5% shares fully paid	13,500	–	–	Loose Tools, etc.	2,750	–	–
Ordinary Shares: 58,000 £1 shares fully paid	58,000	–	–	Furniture	200	–	–
Debenture Stock 4½%	19,500	–	–	Horses, Carts, etc.	250	–	–
Freehold	23,500	–	–	Patterns and Models	3,200	–	–
Fixed Plant	4,400	–	–	Goodwill	53,293	–	–
				Debenture Interest paid to 31st Dec.	877	10	–
				Preference Dividend paid to 31st Dec.	675	–	–

	£	s.	d.		£	s.	d.
Loan Interest paid				Discount Allowed	1,390	13	11
to 31st Dec.	263	2	10	Wages	18,658	11	7
Directors' Fees	250	–	–	Bad Debt Account *Cr.*	408	1	9
Bank Commission	26	18	3	Coal	1,890	19	1
Subscriptions	29	14	6	Insurance	168	1	2
Bank Interest *Cr.*	179	17	6	Loans to Workmen	5	12	2
Debenture Trustees'				Horse-keep	735	3	4
Fees	26	5	–	New Plant (Loose)	385	17	9
Loans *Cr.*	5,530	–	–	New Buildings	81	9	9
Bank	6,593	10	10	New Patterns	525	5	10
Reserve Fund	6,100	–	–	Repairs	1,594	–	5
Investments	707	–	–	Trade Expenses	635	7	2
Profit and Loss Ac-				Salaries	1,307	1	6
count (1st Jan.) *Cr.*	6,493	8	6	Debtors	11,612	8	5
Stock (1st Jan.)	8,302	6	2	Creditors	3,363	19	10
Purchases	17,315	10	7	Cash	99	16	8
Discount Received	221	11	3	New Electric Light			
Returns Outwards	51	10	11	Installation (to be			
Sales	48,701	17	2	spread over 3 years)	300	–	–

Stock, 31st December: Goods, £8,605 18s. 9d.; Horse-keep, £25.

Dividend accrued due on Investments, £150.

Depreciation: Fixed Plant, 5 per cent; Loose Tools, 7½ per cent; Patterns 10 per cent; Horses and Carts, 20 per cent; Furniture, 5 per cent. Half Depreciation to be charged on additions during year.

Reserve £600 for Bad Debts and £667 for Discounts on Debts due.

If there is any surplus profit for the year after paying Debenture Interest and Loan Interest, Preference Dividend and 5 per cent Ordinary Dividend, place 25 per cent of such surplus to a Special Reserve Account.

Prepare Trading and Profit and Loss Account and Balance Sheet, 31st December. (*West Riding of Yorkshire.*)

26. (1) Prepare a Trial Balance comprising 40 items. The items must be arranged under each other with a view to showing, successively, items which belong respectively to the Trading Account, Profit and Loss Account, and Balance Sheet. At the foot of the Trial Balance enumerate items which would normally call for adjustment at the end of the " financial " year.

[The object of this exercise is to gauge how thoroughly students have mastered the component elements of final accounts.]

(2) On pages 460 to 462 of *Advanced Accounts* are " legal " views of " profits " and what part of them may be appropriated for dividends to shareholders. Carefully study the legal decisions. Close the textbook and then proceed to write down the salient points of the decisions under the following sub-headings—

(*a*) Single Account System.
(*b*) Double Account System.
(*c*) Third System.
(*d*) Fourth System.

27. The Lucifer Electrical Co., Ltd., has a nominal Capital of £100,000: one-half in £1 Ordinary Shares and the remainder in 6 per cent Preference Shares of £1 each. There have been issued 40,000 Ordinary Shares (which have been fully paid up) and 20,000 Preference Shares, upon which 5s. per share has been called up and paid. The directors have also issued £10,000 of 4 per cent Redeemable Debentures, of which, at the date of the previous balancing, £2,000 with interest had been paid off.

At 31st December, the following, among other balances, appeared in the books—

	£		£
Wages and Salaries . .	1,100	Machinery and Plant .	14,100
Reserve Account . .	2,500	Purchases . . .	21,000
Undivided Profits . .	4,000	Office Furniture . .	100
Stationery . . .	60	Goodwill Account . .	15,000
Sales	61,500	Bills Receivable . .	2,537
Discounts Account, *Dr.* .	1,260	Carriage . . .	700
Stock, 1st January . .	15,400	Horses, Carts, etc. . .	500
Cash in Bank . . .	2,950	Book Debts . . .	18,500
Value of Lease . .	5,500	Loose Tools . . .	900
Advertising . . .	45	Creditors . . .	11,200
Productive Wages . .	31,800	Rent, Rates, etc. . .	320
Stable Expenses . .	160	Repairs and Replacements	43
Accountancy Fees . .	105	Travelling Expenses .	120

The finished Stock at 31st December amounts to £15,000 and the Stock in process, £2,500.

Of the productive Wages, £100 has been expended in addition to Office Fixtures and Fittings, and £150 in new Tools, and adjustment of these items will be necessary.

You are required to prepare a Trading and Profit and Loss Account and Balance Sheet, after having (1) made provision for one year's unpaid interest on Debentures and Preference Shares, (2) carried 5 per cent of the present value to a Debenture Redemption Account, (3) written 5 per cent off the present value of the Lease, (4) written off an ascertained Bad Debt of £200, and created a Bad Debt Reserve of 2 per cent on the balance of the debts. You will further provide £1,000 for Directors' Fees, ½ per cent Commission on the sales to be allowed to travellers, and for additional Purchases of £400, none of which are yet paid. Depreciation must be made—

On Finished Stock, 5 per cent; on Stock in process, 12½ per cent; on Machinery and Plant, 7½ per cent; on Loose Tools, 7½ per cent. (*Incorporated Accountants.*)

28. The Eldorado Cigarette Co., Ltd., was registered on 1st April, with a nominal Capital of £30,000, divided into 25,000 Ordinary Shares of £1 each, and 500 Preference Shares of £10 each; 22,179 Ordinary Shares were allotted (upon application), called up and fully paid, with the exception of £32 ("calls in arrear"), while the whole of the preference Shares were allotted and paid up before 31st March next.

On 31st March, in addition to the above transactions, the following were the Ledger Accounts' balances of the Company. You are required, after making the adjustments stated below, to prepare a Trading Account and a Profit and Loss Account for the year ended 31st March, and a Balance Sheet as on that date. The stock-in-hand as on 31st March, was valued at £16,455.

LEDGER ACCOUNTS' BALANCES

	£		£
Cash in hand . . .	129	Sales—	
Rent	620	Tobacco . . .	25,693
Gas and Electric Light .	182	Cigarettes . . .	61,460
Rates and Taxes . .	203	Shorts and Sundries .	7,565
Licence and Insurance .	209	Sales Returns—	
Trade Expenses . .	506	Tobacco . . .	427
Electric Power . .	63	Cigarettes . . .	1,036
Interest and Discount (*Dr.* balance) . . .	3,275	Shorts and Sundries .	193

	£		£
Purchases—		Printing and Postage .	347
Tobacco . . .	74,029	General Expenses . .	93
Sundries . . .	2,300	Plant and Machinery .	3,420
Boxes . . .	3,053	Fixtures and Fittings .	1,160
Purchases Returns—		Advertising and Samples .	904
Tobacco . . .	1,745	Profit and Loss Account	
Sundries . . .	162	(Debit balance) . .	479
Boxes . . .	47	Legal Expenses . .	53
Bad Debts (written off) .	247	Audit Fee . . .	105
Wages (Manufacturing) .	7,517	Stock	17,532
Salaries	1,587	Bad Debts Reserve . .	542
Carriage . . .	896	Sundry Creditors . .	22,970
Travellers' Salaries, Commission and Expenses .	1,479	" Debtors . .	24,360
		Cash at Bankers . .	927

Adjustments

	£
Insurance paid in advance	49
Rates " "	32
Owing for Salaries	40
" Electric Light	34
" Electric Power	18
Depreciation Plant and Machinery	10%
" Fixtures and Fittings . . .	7½%

Reserve for Bad and Doubtful Debts, 2½ per cent on Sundry Debtors. (*Chartered Accountants.*)

REVISION EXERCISE XIII

1. Upon which side of the Ledger would you expect to find the Balances of the following accounts? Give your reasons: Bad Debts, Cash, Goodwill, Reserve Fund. (*West Riding of Yorkshire.*)

2. What is the difference, as ordinarily understood, between gross profit and net profit? State some of the advantages to be derived from arriving periodically at the gross profit of a business? (*Chartered Accountants.*)

3. Rule a form of Petty Cash Book which you would recommend for a merchant's or manufacturer's business, where all payments not exceeding £2 are made out of the Petty Cash which is kept by a junior clerk, and explain the method of dealing with it. (*Chartered Accountants.*)

4. On 2nd November, William Robinson & Co., Ltd., drew a bill on Henry Jones at three months for £500 in respect of goods supplied. On 6th November the company received the bill from Jones duly accepted, payable at the County Bank, Ltd., and on 5th December discounted the bill with its bankers at 5 per cent per annum. Make the entries in respect of these transactions in the books of the company. In the Company's Balance Sheet at 31st December, how, if at all, will the bill appear? (*Chartered Accountants.*)

5. Explain, as applied to the Balance Sheet of a Joint Stock Company, the following—

(*a*) Capital Authorized.
(*b*) Calls in Arrear.
(*c*) Mortgage Debentures.
(*d*) Preliminary Expenses.

On which side of the Balance Sheet would they appear? (*Lancashire and Cheshire Union.*)

6. Explain the difference between—
   (a) Debenture Stock.
   (b) Debentures to Bearer.
   (c) Debentures to Registered Holder.

(*Lancashire and Cheshire Union.*)

7. Three doctors, A, B, and C, are in partnership in Kensington. The partnership comes to an end at 31st December, at which date the agreed figures of the Trial Balance are as follows—

	Dr. £	*Cr.* £
A. Capital Account at 1st January		2,500
B. " " "		1,500
C. " " "		1,200
Drawing Account—A at 31st December	1,225	
" B "	634	
" C "	723	
Book Debts (in North Kensington)	2,682	
" (in South Kensington)	2,087	
Liabilities		316
Furniture and Fixtures	125	
Cash at Bankers	1,500	
Profit and Loss balance (before charging Interest on Capital)		3,460
	£8,976	£8,976

Each partner is to be credited with a year's interest at 5 per cent on his full Capital Account, and the remaining profit is to be divided, one-half to A, one-quarter to B, and one-quarter to C. A retires from practice; B takes over the furniture and the debtors in North Kensington, and assumes the liabilities; and C takes over the South Kensington debtors. Each partner takes a third of the Cash balance, and pays his own costs of coming to a settlement. Make out statements showing what are the respective sums to be received or paid by each partner on the final settlement. (*Chartered Accountants.*)

8. A. Edwards & Co. sold their business to a Company for the sum of £220,000, to be paid for by 125,000 £1 Ordinary Shares and £95,000 in cash. Their assets consisted of—

	£
Freehold Land and Buildings, valued at	28,000
Machinery and Plant, etc., valued at	25,000
Book Debts, certified by the Auditors at	45,000
Stocks and Materials in progress, valued at	140,000
Advertising Plates, etc.	25,000
And their liabilities were—	
Trade Creditors	40,000
Loans on Mortgage	45,000

The Capital of the Company was £250,000, consisting of 125,000 Ordinary Shares of £1 each, and 125,000 6 per cent Preference Shares of £1 each, issued at 21s. a share.

The Preference Shares were subscribed by the public as follows—

On Application, 1s. per share; on Allotment, 2s. 6d. per share.

On First Call, 10s. per share; on Second Call, 7s. 6d. per share.

Make the Journal entries for the above transactions in the Company's books, and set out the Balance Sheet thereafter. (*Chartered Accountants.*)

9. A and O, trading in partnership, and sharing profits and losses in the

proportions of two-thirds and one-third respectively, sold their business to J. S. & Co. Their Balance Sheet showed as follows—

	£		£
Creditors . . .	3,750	Plant	2,000
A's Capital . . .	6,000	Fixtures and Furniture .	650
O's Capital . . .	4,000	Stock	7,500
		Book Debts . . .	2,500
		Bills Receivable . .	500
		Cash at Bank . . .	600
	£13,750		£13,750

The purchasers agreed to give £2,000 for Goodwill, but would only take over the Stock at £7,000, and the Plant at £1,700. Make up the Capital Accounts of A and O, carrying out the terms of sale. (*Chartered Accountants.*)

10. The books of the British Manufacturing Co., Ltd., at the end of its first year's business on 31st December, showed the following balances, the Stock-in-trade at that date amounting to £6,000.

	£		£
Share Capital . . .	40,000	Discounts *Dr.* . . .	200
5% Debenture Stock .	10,000	Preliminary Expenses .	500
Interest on Debenture Stock paid *less tax* .	475	Purchases . . .	49,000
Buildings . . .	20,000	Sales	70,000
Machinery . . .	25,000	Wages	15,000
Office and General Repairs	1,500	Cash in hand . . .	3,525
Directors' Fees . .	300	Debtors	6,000
		Creditors . . .	1,500

Write off Preliminary Expenses, £500; Depreciation on Buildings, £400; and on Machinery, £1,000. Prepare a Trading and Profit and Loss Account for the year ended 31st December. (*Chartered Accountants.*)

11. A company made an issue of £100,000 Debenture Stock, secured by trust deed on all the fixed and floating Assets of the company. Of this amount £50,000 was subscribed at a premium of £2 per cent, £30,000 was subscribed at par, and £20,000 was issued to the Company's bankers by way of collateral security for a loan of £15,000. Give the entries which should appear in the Company's Balance Sheet to record these transactions. (*Chartered Accountants.*)

12. In the books of the Isle of Wight Tube Co., Ltd., you find that the shareholders have been paid £4,000 during the current year, representing interest on their holdings at the rate of 5 per cent. A similar sum has been debited to the Construction Account as " Interest paid during Construction of Works." Under what circumstances, if any, is this a proper proceeding? Supposing the line to be completed by the following 31st December, and similar transactions to take place during this year, would your answer be affected in any way? (*Chartered Accountants.*)

13. Premiums on shares of a company having been carried to a Reserve Fund, a portion in a bad year's trading is transferred to Profit and Loss Account in order to pay its Preference Dividend. Would you see any objection to this course? (*Chartered Accountants.*)

14. A Limited Company was formed in October to acquire two private concerns as on the previous 30th June, adopting their trading from that date. The purchases were completed, and trading by the company commenced on 1st November. It was decided to keep the accounts of the two businesses

separate until 30th June. The net profits at 30th June were found to be £2,100 and £3,600 respectively for the year. You are asked to advise the directors as to the amount of dividend they are justified, apart from financial considerations, in paying on the Company's total Capital of £50,000 in Ordinary Shares. What points for consideration would this involve? (*Chartered Accountants.*)

15. Perry & Knowles, Ltd., are Brewers. At 31st December, after the year's working, their Trial Balance stood as follows—

	£	s.	d.		£	s.	d.
Licensed and other Property . .	526,672	18	4	4½% Debenture Stock (Interest payable 1st Jan. and 1st July) .	100,000	–	–
Ordinary Share Capital . .	250,000	–	–	Sundry Creditors .	6,325	4	7
6% Preference share Capital (nominal £250,000) . .	249,610	–	–	Sundry Debtors .	28,714	12	1
Calls paid on Forfeited Shares .	28	–	–	Preference Share Dividends . .	14,227	15	4
Goodwill Account .	22,377	18	4	Plant and Machinery	7,104	2	9
Formation Expenses	4,305	12	6	Barrels . .	3,106	8	10
Premiums on, and alterations to, Leases . .	16,111	19	4	Horses and Drays .	2,114	12	2
Wages . . .	3,040	8	2	Compensation Charges under the Licensing Act (half to be capitalized) . .	874	10	–
Brewing Materials .	30,244	6	4	Cash in hand. .	34	3	11
Mortgages on Licensed Property .	3,850	–	–	Cash in Bank .	3,797	8	9
Trade Defence Fund Contribution, 1st Jan. (half to be written off) .	75	–	–	Interest on Debenture Stock .	2,137	10	–
Contractors, on a/c of Capital Alterations to Property	1,407	16	11	Railway Claims written off .	12	7	–
Commissions .	234	16	–	Income Tax . .	1,083	4	8
Discounts . .	314	4	2	Directors' Fees .	500	–	–
Reserve Fund .	10,000	–	–	Furniture and Fittings . .	207	6	4
Ordinary Share Dividend (Interim, 23rd July) .	3,750	–	–	Amounts received on account of debts written off.	112	16	8
Investments . .	9,611	18	4	General Trade Expenses . .	8,214	6	4
Reserve for Loss on Investments .	800	–	–	Profit and Loss Account (1st Jan.) *Cr.* . . .	16,814	12	1
Reserve for Doubtful Debts . .	200	–	–	Sales, *less* Returns .	49,743	2	11
				Rent *Cr.* . .	5,614	13	–
				Beer Duty paid, *less* amount charged out . . .	2,823	2	8

The Stocks amounted to—

	£	s.	d.
Brewing Materials . .	7,973	2	4
Sundries	614	12	3

Carry forward £150 as unexpired Rates.

Write 15 per cent off Barrels; 9 per cent off Horses and Drays; 7½ per cent off Plant and Machinery; 5 per cent off Furniture and Fittings.

Prepare Profit and Loss Account and Balance Sheet. (*Lancashire and Cheshire Union.*)

CHAPTER XIV

(3) JOINT STOCK COMPANIES (*contd.*)

STATUTORY AND STATISTICAL BOOKS

Books which a Joint Stock Company is Compelled by Law to Keep. The statutory books and documents which must be kept by companies incorporated under the Companies Act, 1929, are as follows—

1. Register of Members (Share Ledger).
2. Register of Directors and Managers.
3. Register of Charges.
4. Minute Book.
5. Annual Return, and a copy of last audited Balance Sheet of the company.

Statistical Books kept by a Joint Stock Company. As mentioned on page 5, Statistical Books are those in which are entered the numerous details connected with the business operations; details that cannot conveniently be recorded in the financial books. Such books are, therefore, kept in addition to, and independent of, the ordinary double entry books. The statistical books generally employed are—

1. Application and Allotments Book.
2. Call Books.
3. Share Certificate Books.
4. Registers of Transfers.
5. Debenture Interest Book.
6. Dividend Books.
7. Seal Register.
8. Register of Probates.
9. Directors' Attendance Book.
10. Agenda Book.
11. Register of Debenture Holders.

APPLICATION AND ALLOTMENTS BOOK

Nature and Use. This is a book ruled in tabular form. There is no standard ruling, but the book usually contains columns to record the names, addresses, and occupations of all applicants for shares, the number of shares applied for and the amount deposited with such applications. Provision is also made by means of additional columns to record particulars of allotments, viz., the number of shares actually allotted and their distinctive numbers, the total amount due on application and allotment on the shares so allotted, the balance due on allotment and the amounts subsequently received thereon. Separate Application and Allotments Books are kept for

each class of shares, Ordinary, Preference, Deferred, etc. The Application and Allotments Book is added, and the totals agreed with the amounts in the financial books, viz. Journal and Cash Book.

In some cases, extra columns are provided to record subsequent Calls and their payment, and also any calls paid in advance. The inclusion of too much detail, however, tends to make the book of a very inconvenient size. Further, if the securities are much sought after, the shares change hands very quickly; and, consequently, the original allottees may not be the persons liable for the amount of calls. Particulars concerning calls are, therefore, best dealt with in a separate Call Book.

Treatment of Applications. A printed application form is issued with the prospectus, and applicants have merely to fill in the required particulars as to name, address, number of shares, etc., and send the same, together with remittance to the company's bankers. The bank fills in the receipts and forwards them to the applicants. The particulars are then entered in a special Bank Pass Book for the company. Separate pass books are kept for different classes of shares, Preference, Ordinary, etc., the totals being ultimately transferred to the company's general Bank Account.

The application letters and the pass books are obtained daily from the company's bankers. The applications are numbered and dated; in large companies by means of a special hand machine or "numerator," and then entered in numerical order in the Application and Allotments Book. In some cases, however, the applications are sorted into alphabetical order and entered on loose sheets, each capable of taking 20 to 25 names, and separate sheets are used for each letter of the alphabet. Afterwards, the whole of the sheets are bound together in book form. This facilitates any subsequent reference that may be necessary. Where the shares are much in demand, speculators often put in different applications on different dates, and it is not unusual for them to succeed in obtaining an allotment on each, as, with a very large number of applicants, the fact of double and treble applications from one and the same person frequently passes unnoticed, unless the applications have been arranged in strict alphabetical rotation. In small companies, a ready-bound and printed book (obtainable from retail law stationers) will no doubt suffice.

When the lists are closed and it is found that the *minimum subscription* has been received, the directors proceed to allotment. Applications bearing the initials of any director are set apart for special consideration. Particulars of all allotments will be entered in the Directors' Minute Book, and the resolutions passed will carefully set out the allottees and the numbers of their shares (probably by a reference to the Allotment Sheets). The directors

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1929.)

ISSUE OF 30,000 PREFERENCE SHARES OF £1 EACH AT PAR.

FORM OF APPLICATION.

To the Directors of the
WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED.

Gentlemen,

Having paid to your Bankers the sum of £____________, being a deposit of 5/- per share on________Preference shares of £1 each, I agree to take up that number of the said shares, or any smaller number that you may allot to me, upon the terms of the Prospectus dated 14th December, 19—, and the Memorandum and Articles of Association, and I authorise you to place my name on the Register of Members as the registered holder of the said Preference Shares, and I agree to pay the amount due on Allotment and further instalments as and when the same become due.

*Signature*______________________

*Name in full*____________________________________
(State whether "Mr.," "Mrs.," or "Miss," and title, if any.)

*Address in full*__________________________________
____
____

*Occupation*____

*Date*_______________________19__

This form should be filled up and forwarded ENTIRE, together with the deposit of 5/- per share on the number of Shares applied for, to the Company's Bankers, THE METRO BANK, LIMITED, ANNON STREET, LONDON, S.W.

A separate Cheque must accompany each application.

. . . .

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

BANKERS' RECEIPT.

*No.*____________

RECEIVED this______________day of________________,19__
from ____
the sum of ____
for the credit of the WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED, being a deposit of 5/- per share on _________Preference Shares of £1 each in the above-named Company.

For THE METRO BANK, LIMITED,

£ : :

__________ *Stamp.* _____________

Cashier.

This Receipt, when returned by the bankers, must be preserved and exchanged in due course for share Certificate.

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1929.)

LETTER OF ALLOTMENT.

£5 or over, 6d. Stamp, under £5, 1d.

*No.*________ *Registered Office,*

________________19__

Sir or Madam,

In accordance with your application for Shares in the above Company, I beg to inform you that the Directors have allotted you ________Preference Shares of £1 each.

The amount payable on application and allotment in respect of the said shares is £ : :

You have paid on application £ : :

Leaving a balance due from you of £ : :

which sum must be paid to the Company's Bankers, THE METRO BANK, LIMITED, Annon Street, London, S.W., on or before the _______instant.

Yours faithfully,

*To*________________

________________________ ___________________

________________________ *Secretary.*

This form must be forwarded Entire, together with remittance to the Company's Bankers.

. . . .

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

BANKERS' RECEIPT.

Received this____________day of______________________, 19__

from ____

the sum of ____

being________per Share payable on allotment of________Preference Shares of £________each in the above Company.

For THE METRO BANK, LIMITED

__________ *Stamp.* ______________

£ : : *Cashier*

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for Share Certificate.

usually initial the Application and Allotments Book at the various stages of allotment. The particulars are entered up in the Application and Allotments Book. Allotment letters, giving particulars of the shares allotted and requesting payment of the amount due on such shares, are next sent by the secretary to the allottees. Applications are merely offers of acceptance and can be withdrawn, if desired, any time before allotment; but the posting of the letter of allotment completes the contract and makes it binding on the allottee. Allotment letters, however, do not specify the distinctive numbers of the shares.

Numbering of Shares. Each share must, by law, have a distinctive number. Different numbers are usually assigned to different classes of shares, in order to guard against mistakes being made by confusing one kind of share with another. Thus, supposing a company to have 50,000 ordinary shares, 50,000 preference shares, and 20,000 deferred shares, the ordinary shares would be numbered from 1 to 50,000, the preference shares from 50,001 to 100,000, and the deferred shares from 100,001 to 120,000.

Money Returned to Applicants. Columns are provided in the Application and Allotments Book to show any money returned to applicants. The reason for such return is either because their applications have not been accepted, or because they have applied for more shares than have been allotted them. In the latter case, the excess paid on application is applied in reduction of the amount due on allotment; but, in some cases, such excess is more than is required on application and allotment together, and the balance not required is refunded to the shareholders concerned. Letters of Regret, together with cheque and printed form of receipt annexed, are forwarded to those applicants to whom no allotment is made.

Shares Allotted to Vendor as Fully or Partly Paid up. Besides being issued to the public for cash, shares may, legally, be issued as fully or partly paid up in return for other kinds of valuable consideration, e.g. property, and also for personal services rendered.

By Section 42 of the Companies Act, 1929, whenever a company limited by shares makes any allotment of its shares it must within one month thereafter file with the registrar of joint stock companies a return of the allotments, and, in the case of shares allotted as fully or partly paid up, a contract in writing constituting the title of the allottee to the allotment.

Letter of Renunciation. In the case of an allotment to existing shareholders of further shares in a successful company, a power of renunciation in favour of nominees is usually given. The renunciation must be in writing and be signed by the shareholder and his nominee. The latter must agree to accept such shares and to pay any amount due thereon, and must also request to be entered in the

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1929.)

LETTER OF REGRET.

*No.*________ *Registered Office,*

______________19__

Sir or Madam,

With reference to your application for Shares in the above Company, I beg to inform you that owing to the over-subscription of same, the Directors regret they are unable to make you any allotment.

I enclose herewith a cheque for £ : : , being the amount deposited by you on application for the said shares, and shall be obliged if you will kindly sign and return the Receipt at the foot of this form.

Yours faithfully,

To __________________

____________________ ____________________

________________________ *Secretary.*

____

. . . .

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

RECEIPT.

*No.*__________

*Date*____________19__

RECEIVED of the above-named Company the sum of____being refund of amount paid on application for__________Preference Shares in the above Company not allotted.

*Signature*_____________ *Stamp.* _______________

£ : :

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1929.)

LETTER OF RENUNCIATION.

Stamp.

To the Directors of

THE WALDRON MANUFACTURING AND TRADING COMPANY, LTD.

I hereby renounce my right to the allotment of_____________ shares of £________ each in the above Company, and request you to allot the said shares to my nominee:

Name ______________________

*Address*______________________

____

Occupation ___________________

(*Signed*) _________________________

Dated this_______day of_________19___

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1929.)

LETTER OF ACCEPTANCE.

To the Directors of

THE WALDRON MANUFACTURING AND TRADING COMPANY, LTD.

I hereby agree to accept the____________shares of £____ each in the above Company renounced by...................... in my favour. I undertake to pay the calls which may be made thereon. I also hereby request you to enter my name in the Register of Members in respect of the said shares.

Dated this________day of____________19____

Signature _____________________________

Address ______________________________

____

*Occupation*___________________________

Register of Members. The stamp duty on a letter of renunciation is the same as that required on a letter of allotment, namely, 1d. if the nominal value is less than £5, and 6d. if it is £5 and over; an adhesive postage stamp may be used.

If all the shares are in the first place allotted to the vendor, and then transfers are made out and registered in the names of his nominees, each transfer would be subject to an *ad valorem* stamp duty of 20s. per cent. And even in the case of a "nominal" consideration, a fixed stamp duty of 10s. per transfer is payable. Obviously, therefore, the execution of letters of renunciation with a maximum duty of 6d. per letter is a much more economical arrangement.

Shareholders' Cash Book. This is a subsidiary Cash Book used for the purpose of recording details of all money received from shareholders. The totals of this book are transferred eventually to the General Cash Book. The company's bankers keep separate pass books for the receipts on each class of shares. These pass books are obtained from the bank daily, and particulars entered up therefrom into this subsidiary Cash Book, and posted thence to the credit of the individual shareholders' accounts in the Share Ledger.

Some accountants, however, consider these subsidiary cash books unnecessary at this stage, and prefer to keep all the detail in the Application and Allotments Book itself, introducing the Shareholders' Cash Book only when calls are made.

In small companies, it will no doubt be sufficient to record the details in an inner column in the General Cash Book itself, extending only the daily totals into the bank column.

In addition to the ruling shown in the worked examples, the following ruling is also met with—

SHAREHOLDERS' CASH BOOK

Date	Name	Share Ledger Folio	Amounts Received			Totals transferred to General Cash Book		

Example 1. The Waldron Manufacturing and Trading Co., Ltd., was registered with a capital of £100,000, consisting of 50,000 Ordinary Shares of £1 each, and 50,000 6 per cent Preference Shares of £1 each. The objects of the company were *inter alia* to acquire the goodwill and assets of the business of Frank T. Waldron. The purchase price was to be paid as to £10,000 in cash, and as to £20,000 in fully-paid Ordinary Shares of the company, allotted

either to the vendor or to his nominees. Ten thousand of the Ordinary Shares were offered on January 1st for public subscription, payable 2s. 6d. per share on application, 7s. 6d. per share on allotment, and the balance in calls not exceeding 5s. per share.

Applications were received, and allotments made, as under —

		No. of Shares applied for.	No. of Shares allotted.
Jan. 2.	Matthew B. Barker, Solicitor, 71 Lime Street, Barnes (including 1 share as signatory) . .	2,500	2,000
3.	Edward Clarke, Solicitors' Clerk, 120 Mare Street, Hackney, London, N.E. (signatory) . .	1	1
4.	John F. Dalton, H.M.C.S., 194 Mildmay Park, London, N. (signatory)	1	1
4.	Fred Evans, Solicitors' Clerk, 96 Rood Lane, Brixton, London, S.W. (signatory)	1	1
6.	Isaac L. Mensper, Surveyor, 25 Leyton Street, Boro, London, S.E. (signatory) . . .	1	1
6.	Ernest O. Prince, Accountant, 12 Temple Chambers, Holborn, London, E.C. (signatory) . .	1	1
7.	Thomas P. Retrop, Solicitor, 2 Lucas Street, Bexley (including 1 share as signatory) . . .	3,000	2,495
7.	Arthur Holdfast, Cotton Merchant, 726 Lime Street, Liverpool	500	nil
8.	James F. Longley, Gentleman, 6 Park Drive, Bromfield	10,000	5,500
8.	Mrs. Ruth Oliver, Widow, Halstead Park, Framley	500	nil

Allotments were made on January 15th in order of application, and the shares numbered from 1 upwards. No allotments were made to

21 **APPLICATION AND ALLOTMENTS**

No. of Application	Name	Address	Occupation	No. of Shares applied for	Amount paid on Application £	s.	d.	No. of Shares Allotted
1	*Barker, Matthew B.*	*71 Lime Street, Barnes, S.W.*	*Solicitor*	2,500	312	10	–	2,000
2	*Clarke, Edward*	*120 Mare Street, Hackney, N.E.*	*Solicitor's Clerk*	1		2	6	1
3	*Dalton, John F.*	*194 Mildmay Park, N.*	*H.M.C.S.*	1		2	6	1
4	*Evans, Fred*	*96 Rood Lane, Brixton, S.W.*	*Solicitor's Clerk*	1		2	6	1
5	*Mensper, Isaac L.*	*25 Leyton Street, Boro, S.E.*	*Surveyor*	1		2	6	1
6	*Prince, Ernest O.*	*12 Temple Chambers, Holborn, E.C.*	*Accountant*	1		2	6	1
7	*Retrop, Thomas P.*	*2 Lucas Street, Bexley*	*Solicitor*	3,000	375	–	–	2,495
8	*Holdfast, Arthur*	*726 Lime Street, Liverpool*	*Cotton Merchant*	500	62	10	–	–
9	*Longley, James F.*	*6 Park Drive, Bromfield*	*Gentleman*	10,000	1,250	–	–	5,500
10	*Oliver, Mrs. Ruth*	*Halstead Park, Framley*	*Widow*	500	62	10	–	—
				16,505	2,063	2	6	10,000

NOTE.—The shares allotted to the vendor and his nominee have, in this case, been entered from Allotments Book, in order to have a complete record.

A. Holdfast and Mrs. Oliver, whose deposits were duly returned in full with Letters of Regret, Nos. 1 and 2. The moneys due on allotment were payable by 20th January, by which date they were all received.

Allotments were also made to the vendor and his nominee as follows—

Frank Waldron, Merchant, 1 Penley Mansions, Sidcup, 15,000 shares (4,501 to 19,500).

Ellen Goode, Spinster, 114 High Road, Sydenham, 5,000 Shares (19,501 to 24,500).

Write up the Application and Allotments Book, and Shareholders' Cash Book, recording the above particulars.

71 **SHAREHOLDERS' CASH BOOK** 71

Dr. (ORDINARY SHARES) *Cr.*

Date	Receipts	Folio	Amount £	s.	d.	Date	Payments	Folio	Amount £	s.	d.
19—						19—					
Jan. 2	To Application A/c—					Jan. 15	By Application A/c—				
" 2	Barker, M. B.	101	312	10	–	" 15	Holdfast, A.	c.	62	10	–
" 3	Clarke, E.	102		2	6	" 15	Oliver, Mrs. R.	c.	62	10	–
" 4	Dalton, J. F.	103		2	6	" 15	Balance c/f.		1,938	2	6
" 4	Evans, Fred	104		2	6						
" 6	Mensper, I. L.	105		2	6						
" 6	Prince, O.	106		2	6						
" 7	Retrop, T. P.	107	375	–	–						
" 7	Holdfast, A.	c.	62	10	–						
" 8	Longley, J. F.	110	1,250	–	–						
" 8	Oliver, Mrs. R.	c.	62	10	–						
			£2,063	2	6				£2,063	2	6

BOOK (ORDINARY SHARES) **21**

Distinctive Numbers From	To	Share Ledger Folio	Amount due on Application and Allotment £	s.	d.	Balance due on Allotment £	s.	d.	Cash paid on Allotment £	s.	d.	Cash returned £	s.	d.	No. of Share Certificates	Remarks
1	2,000	101	1,000	–	–	687	10	–	687	10	–				1	*Signatory*
	2,001	102		10	–		7	6		7	6				2	"
	2,002	103		10	–		7	6		7	6				3	"
	2,003	104		10	–		7	6		7	6				4	"
—	2,004	105		10	–		7	6		7	6				5	"
—	2,005	106		10	–		7	6		7	6				6	"
2,006	4,500	107	1,247	10	–	872	10	–	872	10	–				7	"
—	—	—	—	–	–	—	–	–	—	–	–	62	10	–	—	*Letter of Regret, No. 1*
24,501	30,000	110	2,750	–	–	1,500	–	–	1,500	–	–				10	
—	—	—	—	–	–	—	–	–	—	–	–	62	10	–	—	*Letter of Regret, No. 2*
			£5,000	–	–	£3,061	17	6	£3,061	17	6	£125	–	–		

the Journal into the Share Ledger; some accountants, however, enter them in the Application and

72 SHAREHOLDERS' CASH BOOK 72

Dr. (ORDINARY SHARES.) *Cr.*

Date	Receipts	Folio	Amount			Date	Payments	Folio	Amount		
19—						19—					
Jan. 15	To Balance b/f		1,938	2	6	Jan. 20	By Transfer to				
20	„ Allotment A/c:						General Cash				
20	Barker, M. B.	101	687	10	–		Book		5,000	–	–
20	Clarke, E.	102		7	6						
20	Dalton, J. F.	103		7	6						
20	Evans, Fred	104		7	6						
20	Mensper, I. L.	105		7	6						
20	Prince, E. O.	106		7	6						
20	Retrop, T. P.	107	872	10	–						
20	Longley, J. F.	110	1,500	–	–						
			5,000	–	–				5,000	–	–

For Example 2, see page 491

91 SHAREHOLDERS' CASH BOOK 91

Dr. (PREFERENCE SHARES.) *Cr.*

Date	Receipts	S.L. Folio	Amount			Date	Payments	S.L. Folio	Amount		
19—						19—					
Jan. 2	To Application A/c—					Jan. 15	By Application A/c—				
2	Holloway, P. F.	261	875	–	–	15	Walters, A.	c.	25	–	–
2	Cooper, A. O.	262	2,750	–	–	15	Dixon, T. F.	c.	25	–	–
3	Walters, A.	c.	25	–	–	15	Balance c/f		9,775	–	–
3	Edwards, H.	263	400	–	–						
4	Newton, J. F.	264	1,000	–	–						
4	Archer, F.	265	1,125	–	–						
5	Greale, E. P.	266	875	–	–						
5	Rawlings, G.	267	375	–	–						
6	Brooke, S. L.	268	500	–	–						
6	Dixon, T. F.	c.	25	–	–						
7	Lipton, R.	269	500	–	–						
8	Penley, C. N.	270	1,375	–	–						
			9,825	–	–				9,825	–	–

92 **SHAREHOLDERS' CASH BOOK** 92

(PREFERENCE SHARES.)

Dr. | *Cr.*

Date	Receipts	S.L. Folio	Amount			Date	Payments	S.L. Folio	Amount		
19—						19—					
Jan. 15	To Balance b/f		9,775	–	–	Jan. 15	By Allotment A/c—				
20	„ Allotment A/c—					15	Cooper, A. O.	262	250	–	–
20	Holloway, P. F.	261	775	–	–	15	„ Transfer to General Cash Book		15,000	–	–
20	Edwards, H.	263	300	–	–						
20	Newton, J. F.	264	700	–	–						
20	Archer, F.	265	875	–	–						
20	Greale, E. P.	266	625	–	–						
20	Rawlings, G.	267	375	–	–						
20	Brooke, S. L.	268	475	–	–						
20	Lipton, R.	269	225	–	–						
20	Penley, C. N.	270	1,125	–	–						
			15,250	–	–				15,250	–	–

Example 2. Thirty thousand Preference Shares of the Waldron Manufacturing and Trading Co., Ltd., were offered to the public on January 1st, payable as follows—5s. per share on application, 5s. per share on allotment, and the balance in calls not exceeding 5s. per share.

Applications were received, and allotments made, as under—

		No. of Shares applied for.	No. of Shares allotted.
Jan. 2.	Percy F. Holloway, Baker, 57 Luton Road, Bedford	3,500	3,300
2.	Albert O. Cooper, Gentleman, The Cedars, Farnham, Surrey	11,000	5,000
3.	Allan Walters, Clerk, 112 Burntwood Lane, London, E.C.	100	nil
3.	Henry Edwards, Barrister, 3 Green Lanes, Mitcham	1,600	1,400
4.	James T. Newton, Butcher, 7 The Meat Market, Reading	4,000	3,400
4.	Frederick Archer, Coal Merchant, 777 High Street, Cardiff	4,500	4,000
5.	Edward P. Greale, Farmer, 21 Park Fields, Buckley	3,500	3,000
5.	George Rawlings, Stock Broker, 114 Maida Vale, London, S.W.	1,500	1,500
6.	Samuel L. Brooke, Brewer, 15 Long Street, Burton	2,000	1,950
6.	Thomas F. Dixon, Clerk, 120 Keale Street, Tonge	100	nil
7.	Rufus Lipton, Grocer, 42 Littleton Street, Devizes	2,000	1,450
8	Claude N. Penley, Colonel. 15 Tothill Mansions, Paignton	5,500	5,000

51 APPLICATION AND ALLOTMENTS

No. of Application	Name	Address	Occupation	No. of Shares applied for	Amount paid on Application £	s.	d.	No. of Shares allotted
1	*Holloway, Percy F.*	*57 Luton Road, Bedford*	*Baker*	3,500	875	–	–	3,300
2	*Cooper, Albert O.*	*The Cedars, Farnham, Surrey*	*Gentleman*	11,000	2,750	–	–	5,000
3	*Walters, Allan*	*112 Burntwood Lane, E.C.*	*Clerk*	100	25	–	–	—
4	*Edwards, Henry*	*3 Green Lanes, Mitcham*	*Barrister*	1,600	400	–	–	1,400
5	*Newton, James T.*	*7 The Meat Market, Reading*	*Butcher*	4,000	1,000	–	–	3,400
6	*Archer, Frederick*	*777 High Street, Cardiff*	*Coal Merchant*	4,500	1,125	–	–	4,000
7	*Greale, Edward P.*	*21 Park Fields, Buckley*	*Farmer*	3,500	875	–	–	3,000
8	*Rawlings, George*	*114 Maida Vale, S.W.*	*Stock Broker*	1,500	375	–	–	1,500
9	*Brooke, Samuel L.*	*15 Long Street, Burton*	*Brewer*	2,000	500	–	–	1,950
10	*Dixon, Thomas F.*	*120 Keale Street, Tonge*	*Clerk*	100	25	–	–	—
11	*Lipton, Rufus*	*42 Littleton Street, Devizes*	*Grocer*	2,000	500	–	–	1,450
12	*Penley, Claude N.*	*15 Tothill Mansions, Paignton*	*Colonel*	5,500	1,375	–	–	5,000
				39,300	£9,825	–	–	30,000

Deposits were returned in full with Letters of Regret, Nos. 3 and 4 to Dixon and Walters. Allotments were made on 15th January in order of application, the shares being numbered from 50,001 upwards. The amount over-subscribed by Cooper, after deducting amount due on allotment, was duly returned to him.

Write up the Application and Allotments Book, and Shareholders' Cash Book, recording the above particulars.

RETURN OF ALLOTMENTS

Provisions of the Companies Act. By Section 42 of the Companies Act, 1929—

(1) Whenever a company limited by shares or a company limited by guarantee and having a share capital makes any allotment of its shares, the company shall within one month thereafter deliver to the registrar of companies for registration—

(*a*) a return of the allotments, stating the number and nominal amount of the shares comprised in the allotment, the names, addresses, and descriptions of the allottees, and the amount (if any) paid or due and payable on each share; and

(*b*) in the case of shares allotted as fully or partly paid up otherwise than in cash, a contract in writing constituting the title of the allottee to the allotment together with any contract of sale, or for services or other consideration in respect of which that allotment was made, such contracts being duly stamped, and a return stating the number and nominal amount of shares so allotted, the extent to which they are to be treated as paid up, and the consideration for which they have been allotted.

BOOK (PREFERENCE SHARES) 51

Distinctive Numbers From	Distinctive Numbers To	Share Ledger Folio	Amount due on Application and Allotment £	s.	d.	Balance due on Allotment £	s.	d.	Cash paid on Allotment £	s.	d.	Cash returned £	s.	d.	No. of Share Certificate	Remarks
50,001	53,300	261	1,650	–	–	775	–	–	775	–	–				501	
53,301	58,300	262	2,500	–	–	—	–	–	—	–	–	250	–	–	502	*Oversubscribed*
—	—	—	—	–	–	—	–	–	—	–	–	25	–	–	—	*Letter of Regret, No. 3*
58,301	59,700	263	700	–	–	300	–	–	300	–	–				503	
59,701	63,100	264	1,700	–	–	700	–	–	700	–	–	—	–	–	504	
63,101	67,100	265	2,000	–	–	875	–	–	875	–	–	—	–	–	505	
67,101	70,100	266	1,500	–	–	625	–	–	625	–	–	—	–	–	506	
70,101	71,600	267	750	–	–	375	–	–	375	–	–	—	–	–	507	
71,601	73,550	268	975	–	–	475	–	–	475	–	–	—	–	–	508	
—	—	—	—	–	–	—	–	–	—	–	–	25	–	–	—	*Letter of Regret, No. 4*
73,551	75,000	269	725	–	–	225	–	–	225	–	–	—	–	–	509	
75,001	80,000	270	2,500	–	–	1,125	–	–	1,125	–	–	—	–	–	510	
		£	15,000	–	–	£5,475	–	–	£5,475	–	–	£300	–	–		

(2) Where such a contract as above mentioned is not reduced to writing, the company shall within one month after the allotment deliver to the registrar of companies for registration the prescribed particulars of the contract stamped with the same stamp duty as would have been payable if the contract had been reduced to writing. . . .

(3) If default is made in complying with the requirements of this section, every director, manager, secretary, or other officer of the company, who is knowingly a party to the default, shall be liable to a fine not exceeding fifty pounds for every day during which the default continues.

Example. From the previous examples, Nos. 1 and 2, referring to the allotment of ordinary and preference shares, make out on the prescribed form the statutory Return of Allotments. (See pages 494 and 495.)

CALL BOOK

Nature and Use. This is a book ruled in tabular form. There is no standard ruling, but the book usually contains columns for the names and addresses of the shareholders, the number of shares held, the amount due from each shareholder in respect of the call, and also the amounts actually paid. A separate Call Book is kept for each class of shares, ordinary, preference, deferred, etc.

How Calls are Made. It is generally stated in the prospectus that calls will be made at certain specified dates after allotment, or at such other times as the directors may appoint in accordance

Number of Company } __142014__

"THE COMPANIES ACT, 1929"

A Companies' Fee Stamp of 5s. must be impressed here.

RETURN OF ALLOTMENTS

made ~~from~~ the (a)____*15th*____day of___*January*___, 19__

to the________________day of______________, 19__

OF

The Waldron Manufacturing and Trading Company
Limited

Pursuant to Section 42, *Sub-section* 1

(b) Number of the__*Ordinary*______Shares allotted payable in Cash	___ 10,000 __
Number of the___*Preference*______Shares allotted payable in Cash	___ 30,000 __
Nominal Amount of the ___*Ordinary*_____Shares so allotted	£__ 10,000 ___
Nominal Amount of the ___*Preference*_____Shares so allotted	£__ 30,000 ___
Amount paid or due and payable on each such __*Ordinary*____Share	£__ 1 _______
Amount paid or due and payable on each such __*Preference*___Share	£__ 1 _______
Number of Shares allotted for a consideration other than Cash__*Ordinary*__	___ 20,000 __
Nominal Amount of the Shares so allotted . .	£__ 20,000 ___
Amount to be treated as paid on each such Share .	£__ 1 _______

The Consideration for which such Shares have been allotted is as follows—

____*Part payment of the purchase price of the Goodwill and Assets*____
____*of the business of Frank T. Waldron*________________________

(a) 1. When a return includes several Allotments made on different dates, the dates of only the first and the last of such Allotments should be entered at the top of the front page, and the registration of the return should be effected within one month of the first date.
2. When a return relates to one Allotment only, made on one particular date, that date only should be inserted, and the spaces for the second date struck out and the word "made" substituted for the word "from" after the word "Allotments."
(b) Distinguish between Preference, Ordinary, Redeemable Preference, etc.

Presented by

NAMES, ADDRESSES, AND DESCRIPTIONS OF THE ALLOTTEES IN THE WALDRON MANUFACTURING AND TRADING CO., LIMITED

Surname	Christian Name	Address	Description	Number of Shares Allotted		
				Preference	Ordinary	Other kinds
Barker	*Matthew*	71 *Lime Street, Barnes, S.W.*	*Solicitor*	—	2,000	—
Clarke	*Edward*	120 *Mare Street, Hackney, N.E.*	*Solicitor's Clerk*	—	1	—
Dalton	*John*	194 *Mildmay Park, N.*	*H.M.C.S.*	—	1	—
Evans	*Fred*	96 *Rood Lane, Brixton, S.W.*	*Solicitor's Clerk*	—	1	—
Mensper	*Isaac*	25 *Leyton Street, Boro, S.E.*	*Surveyor*	—	1	—
Prince	*Ernest*	12 *Temple Chambers, Holborn, E.C.*	*Accountant*	—	1	—
Retrop	*Thomas*	2 *Lucas Street, Bexley*	*Solicitor*	—	2,495	—
Waldron	*Frank*	1 *Penley Mansions, Sidcup*	*Merchant*	—	15,000	—
Goode	*Miss Ellen*	114 *High Road, Sydenham*	*Spinster*	—	5,000	—
Longley	*James*	6 *Park Drive, Bromfield*	*Gentleman*	—	5,500	—
Holloway	*Percy*	57 *Luton Road, Bedford*	*Baker*	3,300	—	—
Cooper	*Albert*	*The Cedars, Farnham, Surrey*	*Gentleman*	5,000	—	—
Edwards	*Henry*	3 *Green Lanes, Mitcham*	*Barrister*	1,400	—	—
Newton	*James*	7 *The Meat Market, Reading*	*Butcher*	3,400	—	—
Archer	*Frederick*	777 *High Street, Cardiff*	*Coal Merchant*	4,000	—	—
Greale	*Edward*	21 *Park Fields, Buckley*	*Farmer*	3,000	—	—
Rawlings	*George*	114 *Maida Vale, S.W.*	*Stock Broker*	1,500	—	—
Brooke	*Samuel*	15 *Long Street, Burton*	*Brewer*	1,950	—	—
Lipton	*Rufus*	42 *Littleton Street, Devizes*	*Grocer*	1,450	—	—
Penley	*Claude*	15 *Tothill Mansions, Paignton*	*Colonel*	5,000	—	—
				30,000	30,000	—

(Signature) ___*T. Dunscome Matthews*________

(Officer) ____________________*Secretary*____

WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED.

(Incorporated under the Companies Act, 1929.)

NOTICE OF CALL.

FIRST CALL OF 5/- per SHARE on PREFERENCE SHARES

(Making......................per share called up.)

No............... *Registered Office,*

.....................19.......

Sir or Madam,

I beg to give you notice that a First Call of 5/- per share on the Preference Shares has been made by the Board of Directors in accordance with the terms of the Prospectus.

The amount payable by you in respect of the...................shares in this Company of which you are the registered holder is £ : : , and I have to request that you will be good enough to pay this sum to the Company's Bankers, THE METRO BANK, LIMITED, ANNON STREET, LONDON, S.W., on or before the.................instant.

Yours faithfully,

To.....................................

....

....

.... *Secretary.*

This form must be forwarded ENTIRE, together with remittance, to the Company's Bankers.

. . . .

WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED.

BANKERS' RECEIPT.

No....................

RECEIVED this......................day of..................................19......

from..

the sum of...

being 5/- per share payable on First Call on........................Preference Shares in the above Company.

For THE METRO BANK, LIMITED.

.... *Stamp.* ....

£ : :

Cashier.

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for share certificate.

with the powers conferred on them by the Articles of Association. The call is made by the Board of Directors, the resolution authorizing the call being duly passed and entered up in the Directors' Minute Book. In some cases, however, by the Articles of Association, a call can only be made with the consent of the shareholders to a resolution passed in general meeting. The directors will be guided by the company's regulations as to times of making calls, intervals between different calls, and time for payment.

Procedure after Call has been Made. When the directors have met and passed a resolution calling up any portion of the unpaid capital allotted, particulars will be entered in the Call Book. Call notices, provided with a printed form of receipt, will be dispatched to the shareholders concerned. Call notices to be legally effective must state definitely the amount called, the total amount due, and at what time and at what place it is payable.

Shareholders are entitled to reasonable notice, and are usually given 10 to 20 days. The money is payable at the company's bankers as in the case of application and allotment instalments; but, in small companies, it may be made payable direct to the company's registered office. The company's bankers will keep a separate pass book for the calls on each class of shares. The pass book will be obtained from the bank, and the details will be entered in the Call Book and the Shareholders' Cash Book. The Call Book is added and the totals agreed with the total amount of call due, in order to guard against any names being omitted from the list; the total of the Cash Received column is also agreed with the Bank Pass Book total.

Interest on Calls. Columns are provided, in the Call Book, for interest. Some shareholders may not be able to pay the whole of the amount due from them within the time stipulated by the Call Notice. In such cases, an extension of time is granted to such shareholders on condition that they pay interest on the sum due up to the actual time of payment. Again, some shareholders pay their shares in full, not wishing to be troubled by constant calls. In these cases, interest is allowed by the company.

Example 1. On 5th May the directors of the Waldron Manufacturing and Trading Co., Ltd., made a first Call of 5s. per share on the Ordinary Shares. The Call was payable by the 20th May, and the following amounts were received—

19..				£	s.	d.
May	9.	E. Clarke	1 share	–	5	–
,,	11.	F. Evans	1 ,,	–	5	–
,,	13.	T. P. Retrop	2,495 shares	123	15	–
,,	14.	E. O. Prince	1 share	–	5	–
,,	15.	J. F. Dalton	1 ,,	–	5	–
,,	17.	J. F. Longley	5,500 shares	1,375	–	–
,,	18.	M. B. Barker	2,000 ,,	250	–	–
,,	20.	I. L. Mensper	1 share	–	5	–

Barker and Retrop were allowed till 20th June to pay the balance, plus interest at 5 per cent, on which date the sums due (including interest thereon) were duly received. Write up the Call Book and the Shareholders' Cash Book. (See page 499.)

Example 2. On 5th May the directors of the Waldron Manufacturing and Trading Co., Ltd., made a first Call of 5s. per share on the Preference Shares. The Call was payable by 20th May, and the following amounts were received—

19..					£	s.	d.
May	8.	A. O. Cooper	5,000	shares	1,250	–	–
„	10.	F. Archer	4,000	„	1,000	–	–
„	12.	E. P. Greale	3,000	„	250	–	–
„	13.	C. N. Penley	5,000	„	1,250	–	–
„	14.	G. Rawlings	1,500	„	375	–	–
„	16.	S. L. Brooke	1,950	„	487	10	–
„	17.	R. Lipton	1,450	„	725	–	–
„	19.	P. F. Holloway	3,300	„	825	–	–
„	20.	J. F Newton	3,400	„	850	–	–

E. P. Greale was allowed till 20th June to pay the balance, on which date the sum due (plus interest thereon at 5 per cent) was duly received. No money at all was received from H. Edwards, whose shares were forfeited on 25th June. Write up the Call Book and the Shareholders' Cash Book. (See pages 499 and 500.)

73 SHAREHOLDERS' CASH BOOK 73

(ORDINARY SHARES.)

Dr. *Cr.*

Date		Receipts	S.L. Folio	£	s.	d.	Date		Payments	S.L. Folio	£	s.	d.
19—							19—						
May	9	To First Call A/c—					May	20	By Transfer to General Cash Book		1,750	–	–
	9	Clarke, E.	102		5	–							
	11	Evans, F.	104		5	–							
	13	Retrop, T. P.	107	123	15	–							
	14	Prince, E. O.	106		5	–							
	15	Dalton, J. F.	103		5	–							
	17	Longley, J. F.	110	1,375	–	–							
	18	Barker, M. B.	101	250	–	–							
	20	Mensper, I. L.	104		5	–							
				1,750	–	–					1,750	–	–
June	20	To First Call A/c—					June	20	By Transfer to General Cash Book		750	–	–
	20	Barker, M. B.	101	250	–	–		20	Ditto		3	3	9
	20	Retrop, T. P.	107	500	–	–							
	20	„ Interest—											
		Barker, M. B.	101	1	1	3							
		Retrop, T. P.	107	2	2	6							
				753	3	9					753	3	9

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CALL BOOK (ORDINARY SHARES)

FIRST CALL OF 5s. PER SHARE MADE MAY 5TH AND PAYABLE BY MAY 20TH

S.L. Folio	Name	Address	No. of Shares held	Amount due	Amount paid	Arrears: Amount	Arrears: Days	Arrears: Interest	Calls paid in Advance	Remarks
101	*Barker, M. B.*	*71 Lime Street, Barnes, S.W.*	2,000	500 – –	250 – –	250 – –	31	1 1 3		*Paid June 20th*
102	*Clarke, E.*	*120 Mare Street, Hackney, N.E.*	1	5 –	5 –					
103	*Dalton, J. F.*	*194 Mildmay Park, N.*	1	5 –	5 –					
104	*Evans, F.*	*96 Rood Lane, Brixton, S.W.*	1	5 –	5 –					
105	*Mensper, I. L.*	*25 Leyton Street, Boro, S.E.*	1	5 –	5 –					
106	*Prince, E. O.*	*12 Temple Chambers, Holborn, E.C.*	1	5 –	5 –					
107	*Retrop, T. P.*	*2 Lucas Street, Bexley*	2,495	623 15 –	123 15 –	500 – –	31	2 2 6		*Paid June 20th*
110	*Longley, J. F.*	*6 Park Drive, Bromfield*	5,500	1,375 – –	1,375 – –					
			10,000	2,500 – –	1,750 – –	750 – –		3 3 9		

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CALL BOOK (PREFERENCE SHARES)

FIRST CALL OF 5s. PER SHARE MADE MAY 5TH AND PAYABLE BY MAY 20TH

S.L. Folio	Name	Address	No. of Shares held	Amount due	Amount paid	Arrears: Amount	Arrears: Days	Arrears: Interest	Calls paid in Advance	Remarks
261	*Holloway, P. F.*	*57 Luton Road, Bedford*	3,300	825 – –	825 – –					
262	*Cooper, A. O.*	*The Cedars, Farnham, Surrey*	5,000	1,250 – –	1,250 – –					
263	*Edwards, H.*	*3 Green Lanes, Mitcham*	1,400	350 – –	— – –	350 – –	31	1 9 9		*Not paid, forfeited*
264	*Newton, J. T.*	*7 The Meat Market, Reading*	3,400	850 – –	850 – –					
265	*Archer, F.*	*777 High Street, Cardiff*	4,000	1,000 – –	1,000 – –					
266	*Greale, E. P.*	*21 Park Fields, Buckley*	3,000	750 – –	250 – –	500 – –	31	2 2 6		*Paid June 20th*
267	*Rawlings, G.*	*114 Maida Vale, S.W.*	1,500	375 – –	375 – –					
268	*Brooke, S. L.*	*15 Long Street, Burton*	1,950	487 10 –	487 10 –					
269	*Lipton, R.*	*42 Littleton Street, Devizes*	1,450	362 10 –	725 – –				362 10 –	*Subject to 5 per cent. interest*
270	*Penley, C. N.*	*15 Tothill Mansions, Paignton*	5,000	1,250 – –	1,250 – –					
			30,000	7,500 – –	7,012 10 –	850 – –		3 12 3	362 10 –	

93 **SHAREHOLDERS' CASH BOOK** 93

Dr. (PREFERENCE SHARES.) *Cr.*

Date	Receipts	S.L. Folio	Amount	Date	Payments	S.L. Folio	Amount
19—				19—			
May 8	To First Call A/c—			May 20	By Transfer to General Cash Book . .		6,650 – –
8	Cooper, A. O. .	262	1,250 – –				
10	Archer, F. .	265	1,000 – –				
12	Greale, E. P. .	264	250 – –	20	„ Transfer to General Cash Book . .		362 10 –
13	Penley, C. N. .	270	1,250 – –				
14	Rawlings, G. .	267	375 – –				
16	Brooke, S. L. .	268	487 10 –				
17	Lipton, R. .	269	362 10 –				
17	„ Calls in Advance— Lipton, R. .	269	362 10 –				
19	„ First Call A/c— Holloway, P. F.	261	825 – –				
20	Newton, J. T. .	264	850 – –				
			7,012 10 –				7,012 10 –
June 20	To First Call A/c— Greale, E. P. .	266	500 – –	June 20	By Transfer to General Cash Book . .		500 – –
20	„ Interest— Greale, E. P. .	266	2 2 6	20	Ditto . .		2 2 6
			502 2 6				502 2 6

REGISTER OF TRANSFERS

Nature and Use. This is a book ruled in tabular form. There is no standard ruling, but the book usually contains columns to record the names, addresses, and occupations of both transferor and transferee, the number of shares transferred, their distinctive numbers and the amount paid up thereon, the date the transfer was registered, and the number of new share certificate issued to the transferee. Other columns are also met with in some companies' books, viz. date the transfer was lodged with the company, number of old share certificate to be cancelled, number of balance certificate issued to transferor, amount of consideration received by transferor, date and number of minute passing the transfer, etc.

In large companies, separate Transfer Registers are kept for each class of shares, also a separate department and staff. In small companies, one register frequently suffices, transfers of ordinary shares being entered in black ink, and transfers of preference shares in red; while in many such companies the Register of Transfers is frequently bound up with the Share Ledger, and thus forms part of it.

How Shares are Transferred. Most companies' Articles require transfers of shares to be made by deed; though where this is not the case, the transfer can be made by agreement under hand, by both parties affixing their signatures thereto. Generally, any one wishing to transfer shares must execute a transfer deed. A specimen of such a document is given on page 501. Subject to a few exceptions, an *ad valorem* stamp duty of 1 per cent, i.e. 20s. per £100,

Stamp.

SHARE TRANSFER.

I, ...
of ....
....
in consideration of the sum of ....
....
paid to me by ....
of ....
....
DO HEREBY TRANSFER to the said ....
............shares of £........each,............per share paid, numbered ....
to................inclusive, standing in my name in the books of the....
....Company, Limited.

TO HOLD unto the said ....
his executors, administrators, and assigns subject to the several conditions on which I held the same at the time of the execution hereof. And I the said ....do hereby agree to take the said shares subject to the conditions aforesaid.

AS WITNESS OUR HANDS this ....day of ...., in the Year of Our Lord, One thousand ....
nine hundred and..................................

Signed by the above-named
....
in the presence of

WITNESS
Signature ....
Address ....
....
Occupation ....

Signature
....

SEAL

Signed by the above-named
....
in the presence of

WITNESS
Signature ....
Address ....
....
Occupation ....

Signature
....

SEAL

is payable by means of an impressed stamp, as shown in the following table.

Consideration not exceeding £	Amount £ s. d.	Consideration not exceeding £	Amount £ s. d.
5	1 –	125	1 5 –
10	2 –	150	1 10 –
15	3 –	175	1 15 –
20	4 –	200	2 – –
25	5 –	225	2 5 –
50	10 –	250	2 10 –
75	15 –	275	2 15 –
100	1 – –	300	3 – –

and 10s. for every additional £50 or fraction thereof. The duty must be paid within thirty days of the signing of the transfer. When shares are transferred for a "nominal" consideration, the stamp duty payable is fixed at 10s. irrespective of the value of the stock or shares transferred. This fixed duty of 10s. is applicable when the transaction falls within one of the following descriptions—

(*a*) Vesting the property in trustees on the appointment of a new trustee of a pre-existing trust, or on the retirement of a trustee.

(*b*) A transfer, as for a nominal consideration, to a mere nominee of the transferor where no beneficial interest in the property passes.

(*c*) A transfer by way of security for a loan; or a re-transfer to the original transferor on repayment of a loan.

(*d*) A transfer to a residuary legatee of stock, etc., which forms part of the residue divisable under a will.

(*e*) A transfer to a beneficiary under a will of a specific legacy of stock, etc.

(*f*) A transfer of stock, etc., being the property of a person dying intestate to the party or parties entitled to it.

If a transfer, however, is made on a sale, or in liquidation of a debt, or in exchange for other securities, *ad valorem* duty is payable on the value, or agreed value, of the consideration.

It should be noted that by Section 74 of the Finance (1909–10) Act, 1910, a transfer of any shares, stock, or marketable security by way of gift *completed in the lifetime of the donor* is liable to *ad valorem* duty.

Provisions of Table A. The following clauses of Table A, which are typical of most Articles of Association, should be carefully noted—

17. The instrument of transfer of any share in the company shall be executed by or on behalf of the transferor and transferee, and the transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the Registrar of Members in respect thereof.

18. Shares in the company shall be transferred in the following form, or in any usual or common form which the directors shall approve;

I, A. B., of____________, in consideration of the sum of £______paid to me by C. D., of__________(hereinafter called "the said transferee") do hereby transfer to the said transferee the share [or shares] numbered ____________in the undertaking called the__________Company, Limited, to hold unto the said transferee, subject to the several conditions on which I hold the same, and I, the said transferee, do hereby agree to take the said share [or shares] subject to the conditions aforesaid. As witness our hands the______day of____________

Witnesses to the signatures of, etc.

19. The directors may decline to register any transfer of shares, not being fully-paid shares, to a person of whom they do not approve, and may also decline to register any transfer of shares on which the company has a lien. The directors may also suspend the registration of transfers during the fourteen days immediately preceding the ordinary general meeting in each year. The directors may decline to recognize any instrument of transfer unless—

(*a*) a fee not exceeding 2s. 6d. is paid to the company in respect thereof and

(*b*) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

If the directors refuse to register a transfer of any share they shall within two months after the date on which the transfer was lodged with the company send to the transferee notice of the refusal.

20. The legal personal representatives of a deceased sole holder of a share shall be the only persons recognized by the company as having any title to the share. In the case of a share registered in the names of two or more holders, the survivors or survivor, or the legal personal representatives of the deceased survivor, shall be the only persons recognized by the company as having any title to the share.

21. Any person becoming entitled to a share in consequence of the death or bankruptcy of a member shall, upon such evidence being produced as may from time to time be required by the directors, have the right, either to be registered as a member in respect of the share or, instead of being registered himself, to make such transfer of the share as the deceased or bankrupt person could have made; but the directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by the deceased or bankrupt person before the death or bankruptcy.

22. A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the company.

Registration of Transfers. Each transfer deed has to be forwarded, together with the share certificate concerned, to the company's registered office for approval and registration. The transfer is examined with respect to stamp duty, date, signatures, etc., and the distinctive numbers of the shares mentioned therein are compared with the numbers stated in the share certificate, also with those in the shareholder's account in the Share Ledger. The signature of the transferor is compared with his signature on previous transfers or on application forms. In some cases the transferor is notified by the company of the lodgment of the transfer, as a precaution against forgery. The transfer is then submitted to the Board of Directors. If they approve it, a resolution is passed and recorded in the Directors' Minute Book. Particulars are then entered in the Register of Transfers, the transfer deeds being numbered in consecutive order. A new share certificate is made out for the transferee. If the shares transferred form only part of a shareholder's holding, it is the practice to issue a balance certificate to

the transferor; an alternative method is to note the shares transferred on the margin or back of the original certificate, but this is very unusual. Where balance certificates are issued, the old certificate is cancelled by scribbling or stamping across the signatures of the directors and secretary. The Register of Transfers is often initialed by a director up to the date at which the transfers have been passed. A registration fee of 2s. 6d. is usually charged in respect of each transfer.

Forged Transfers. If a forged transfer is passed by the directors, the transferee acquires no rights to the shares mentioned therein, even though he may have received a share certificate from the company; and his name may be removed from the Register of Members. The company remains liable to the true owner for any dividends he may have lost through their action, and it can be compelled to re-enter his name on the Register of Members in respect of such shares. The Forged Transfers Acts, 1891 and 1892, give power to joint stock companies, local authorities, incorporated friendly societies, and building or other provident societies to charge an additional fee on each transfer registered in order to provide a fund out of which to compensate the *transferee* for any loss sustained under a forged transfer.

Blank Transfer. A blank transfer is one signed by the transferor, but in which the name of the transferee and the date of execution are not filled in. It is usually deposited with the lender, together with the share certificate concerned, as security for a loan. The company will not, of course, recognize a blank transfer; but it gives the holder an equitable right to the shares mentioned therein. If desired, the necessary particulars are filled in and the transfer duly registered, thereby giving the holder the legal title to such shares.

Certification of Transfers. This is a practice that has grown up owing to the exigencies of Stock Exchange procedure. If a seller's share certificate includes more shares than he wishes to dispose of, he cannot hand it over to the buyer along with the transfer deed; so he takes his certificate and the transfer to the company's office, and has his transfer "certificated." If the documents are in order, the secretary writes or stamps on them a note similar to the following—

> Certificate No.__216__for__500__Shares of__£1________each, __*15s.*____per share paid up, numbered__781___ to __1280_____ inclusive, lodged at the Company's registered office this ___*14th*___ day of *September*.
>
> 19___ ___*A. Briller*_____, Secretary.

The buyers and their brokers then act on the faith of this certification just the same as if the certificate had been lodged with

themselves. No fee is charged for certification. The object of it is to satisfy the transferee that the transferor can give a good title to the shares mentioned in the transfer. The old certificate is at once cancelled, a new certificate is eventually forwarded to the transferee, and a balance certificate to the transferor. It should be noted, however, that in the case of *George Whitechurch, Ltd.* v. *Cavanagh* it was decided that if a secretary fraudulently certifies a transfer without having received the certificate, the company can refuse to be bound in any way by the certification.

Example 1. The following transfers of Ordinary Shares were made, approved, and duly registered in the books of the Waldron Manufacturing and Trading Co., Ltd.—

25th June, 500 shares (1–500) from M. B. Barker to I. L. Mensper; No. of transfer deed, No. 1.

15th July, 500 shares (501–1,000) from M. B. Barker to E. O. Prince.

4th August, 1,000 shares (24,501–25,500) from J. F. Longley to T. P. Retrop.

15th September, 200 shares (25,501–25,700) from J. F. Longley to J. F. Dalton.

10th November, 500 shares (25,701–26,200) from J. F. Longley to Henry A. Johnson, Gentleman, 65 Old Steine, Brighton.

15th December, 500 shares (26,201–26,700) from J. F. Longley to Fritz B. Thorpe, Auctioneer, 9 Minstrel Street, Hastings.

Write up the company's Register of Transfers. (See pp. 506–507.)

Example 2. The following transfers of Preference Shares were made, approved, and duly registered in the books of the Waldron Manufacturing and Trading Co., Ltd.

2nd July, 300 shares (50,001–50,300) from P. F. Holloway to F. Archer; No. of transfer deed, No. 1.

19th August, 500 shares (53,301–53,800) from A. Cooper to S. L. Brooke.

8th September, 400 shares (59,701–60,100) from J. F. Newton to G. Rawlings.

22nd October, 1,000 shares (67,001–68,000) from E. P. Greale to F. Archer.

15th November, 1,000 shares (75,001–76,000) from C. N. Penley to Percy Truefitt, Engineer, 12 High Street, Wycombe.

19th December, 1,000 shares (76,001–77,000) from C. N. Penley to Oswald Vickers, Major, 179 Greene Street, Thurston.

Write up the company's Register of Transfers. (See pp. 506–507.)

SHARE CERTIFICATE BOOK

Nature and Use. A Share Certificate is a document issued by limited companies to their shareholders, showing that the person

41 **REGISTER OF TRANSFERS**

No. of Transfer	Date Transfer Registered	Transferor's					
		S.L. Folio	Name	Address	Occupation	S.L. Folio	Name
	19—						
1	*June* 25	101	*Barker, M. B.*	*71 Lime St., Barnes*	*Solicitor*	105	*Mensper, I. L.*
2	*July* 15	101	" "	" " "	"	106	*Prince, E. O.*
3	*Aug.* 4	110	*Longley, J. F.*	*6 Park Drive, Bromfield*	*Gentleman*	107	*Retrop, T. P.*
4	*Sept.* 15	110	" "	" " "	"	103	*Dalton, J. F.*
5	*Nov.* 10	110	" "	" " "	"	111	*Johnson, Henry A.*
6	*Dec.* 15	110	" "	" " "	"	112	*Thorpe, Fritz B.*

31 **REGISTER OF TRANSFERS**

No. of Transfer	Date Transfer Registered	Transferor's					
		S.L. Folio	Name	Address	Occupation	S.L. Folio	Name
	19—						
1	*July* 2	261	*Holloway, P. F.*	*57 Luton Rd., Bedford*	*Baker*	265	*Archer, F.*
2	*Aug.* 19	262	*Cooper, A. O.*	*The Cedars, Farnham*	*Gentleman*	268	*Brooke, S. L.*
3	*Sept.* 8	264	*Newton, J. T.*	*7 The Meat Market, Reading*	*Butcher*	267	*Rawlings, G.*
4	*Oct.* 22	266	*Greale, E. P.*	*21 Park Fields, Buckley*	*Farmer*	265	*Archer, F.*
5	*Nov.* 15	270	*Penley, C. N.*	*15 Tothill Mansions, Paignton*	*Colonel*	271	*Truefitt, Percy*
6	*Dec.* 19	270	" "	" " "	"	272	*Vickers, Oswald*

named therein is the holder of so many shares in the company, and specifying the amounts paid up thereon. Share certificates are usually made up in book form like cheques, and perforated; so that each certificate issued has its corresponding counterfoil, on which short particulars are entered for reference.

Provisions of the Companies Act. By the Companies Act, 1929, Section 67, every company must within *two* months after the allotment of any of its shares, debentures, or debenture stock, and within two months after the lodgment of the transfer of any such shares, debentures, or debenture stock, complete and have ready for delivery the certificates of all shares, the debentures, and the certificates of all debenture stock allotted or transferred, unless the conditions of issue of the shares, debentures, or debenture stock otherwise provide. A certificate under the common seal of the company, specifying any shares or stock held by any member is prima facie evidence of the title of the member to the shares or stock.

Procedure in Connection with Share Certificates. The certificates

(ORDINARY SHARES) 41

Transferee's		Shares Transferred.						No. of New Certificate	Remarks
Address	Occupation	No.	Distinctive Numbers. From	To	Amount Paid Up				
25 *Leyton St., Boro, S.E.*	*Surveyor*	500	1	500	375	-	-	11	
12 *Temple Chambers, E.C.*	*Accountant*	500	501	1,000	375	-	-	12	
2 *Lucas Street, Bexley*	*Solicitor*	1,000	24,501	25,500	750	-	-	13	
194 *Mildmay Park, N.*	*H.M.C.S.*	200	25,501	25,700	150	-	-	14	
65 *Old Steine, Brighton*	*Gentleman*	500	25,701	26,200	375	-	-	15	
9 *Minstrel St., Hastings*	*Auctioneer*	500	26,201	26,700	375	-	-	16	

(PREFERENCE SHARES) 31

Transferee's		Shares Transferred						No. of New Certificate	Remarks
Address	Occupation	No.	Distinctive Numbers. From	To	Amount Paid Up				
777 *High St., Cardiff*	*Coal Merchant*	300	50,001	50,300	225	-	-	511	
15 *Long Street, Burton*	*Brewer*	500	53,301	53,800	375	-	-	512	
114 *Maida Vale, S.W.*	*Stock Broker*	400	59,701	60,100	300	-	-	513	
777 *High Street, Cardiff*	*Coal Merchant*	1,000	67,001	68,000	750	-	-	514	
12 *High Street, Wycombe*	*Engineer*	1,000	75,001	76,000	750	-	-	515	
179 *Greene St., Thurston*	*Major*	1,000	76,001	77,000	750	-	-	516	

are usually issued in exchange for the allotment letters, and the banker's receipts for instalments paid on application and allotment. Where a Call is made after the share certificates have been issued, the call notice will notify the shareholders that upon production of the share certificate, together with banker's receipt for call money, the amount of the call paid will be endorsed, by the company, on the share certificate.

Distinctive Numbers of Shares. In some share certificates the distinctive numbers of the shares are mentioned in the body of the certificate. In others the number of shares and also their distinctive numbers are mentioned in specially ruled columns in the margin. By this means several groups of shares can be entered in the same certificate.

Number of Share Certificate. Each share certificate has a distinctive number, and this number is usually recorded in a special column in the Allotment Book, and frequently also in the Share Ledger.

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1929.)

ISSUE OF £10,000 DEBENTURES in BONDS of £100 EACH, bearing interest at £5 per cent. per annum on the amount for the time being paid up thereon.

Impressed 2d. stamp.

SCRIP CERTIFICATE.

No.___127___

THIS IS TO CERTIFY that ______________________________

of ____

is entitled upon payment of all instalments when due, and subject to surrendering all receipts for such instalments, and also this SCRIP CERTIFICATE, to__________DEBENTURES of £_____ each in the above-named Company.

On completion of the payments this Certificate is to be surrendered to the Company to be exchanged for definitive Debentures.

This Certificate is issued subject to the conditions contained in the Prospectus dated the__________day of__________19___

GIVEN UNDER THE COMMON SEAL of the Company this ______day of__________19___

____
_________________________ } *Directors.*

Seal

____
Secretary.

N.B.—The instalments paid will be indorsed on the back hereof by the Company on production of the Bankers' receipts for same.

Duplicate Certificates. Companies usually have power by their Articles of Association to issue duplicate certificates to replace any that may have been defaced, lost, or destroyed, the holder being required to give the company a letter of indemnity. No fee is charged for the first certificate, but a small charge is generally made for duplicates.

Scrip. This term is a Stock Exchange contraction for the word "subscription." It denotes a *provisional* certificate for shares or debentures in a joint stock company, or bonds of a Government loan. The scrip certificate is issued when the allotment money is paid, and is exchanged in due course for the share certificate or bond when all the instalments have been paid. The terms "scrip" and "share certificate" are often used, however, as if synonymous.

On the back of the scrip certificate will appear the dates of the various payments, similar to the following—

Date	Description of Payment	Rate	Amount Paid			Signature of Secretary
19..			£	s.	d.	
Feb. 15	*Application* . . .	10%	10	–	–	*T. Briller*
,, 25	*Allotment* . . .	20%	20	–	–	*T. Briller*
May 15	*First Call* . . .	30%	30	–	–	*T. Briller*
Sept. 15	*Second Call* . .	40%	40	–	–	*T. Briller*

Although a document under seal, a share certificate does not require a stamp; but a scrip certificate entitling a person *to become* the proprietor of shares requires an impressed 2d. stamp.

REGISTER OF MEMBERS AND SHARE LEDGER

Nature and Use. The Register of Members is one of the *statutory* books. It is ruled in tabular form, though there is no standard ruling, as the law does not prescribe any particular form. By the provisions of the Companies Act, 1929 (Section 95), it must contain the following particulars—

(*a*) The names and addresses, and the occupations (if any), of the members, and in the case of a company having a share capital a statement of the shares held by each member, distinguishing each share by its number, and of the amount paid or agreed to be considered as paid on the shares of each member.

(*b*) The date at which each person was entered in the Register as a member.

(*c*) The date at which any person ceased to be a member.

In actual practice, however, many additional particulars are kept, and the book is more generally known as a Share Ledger. In large companies, separate Share Registers or Ledgers are provided for each class of shares, Ordinary, Preference, Deferred, etc. They are generally bound in different coloured bindings to prevent confusion.

*No.*__________

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1929.)

CAPITAL £100,000.

50,000 ORDINARY SHARES OF £1 EACH.

50,000 6% PREFERENCE SHARES OF £1 EACH.

SHARE CERTIFICATE.

THIS IS TO CERTIFY that________________________________
of ____
is the Registered Proprietor of____________ 6% Preference Shares of £1 each, numbered__________to__________inclusive in the WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED, subject to the provisions of the Memorandum and Articles of Association of the Company, and that there has been paid in respect to each of the said Shares the sum of

____

____

GIVEN UNDER THE COMMON SEAL of the Company this __________day of______________19______

________________________ }
________________________ } *Directors.*

Seal

____
Secretary.

No Transfer of the above Shares can be made without the production of this Certificate.

In small companies, both Registers (and often the Transfer Register) are bound in one book.

Date of Entry as a Member. The date usually entered is the date of allotment, which, in many cases, may not be the correct date. It should be the particular date on which the entry was actually made in the Register, for the law does not recognize a person as a " member " until his name is actually entered in the company's official Register.

Forms of Ruling. These fall naturally into two divisions: (*a*) where shares are issued fully paid up, (*b*) where shares are issued partly paid up. In the former case, only a statistical record will be necessary. In the latter case, a Cash Account will be required in addition to the statistical record, in order to record the various instalments due on application, allotment, and calls, and also the respective payments of same. The Cash Account will be used to record only the cash due and paid *to the company*, not for the consideration money paid on the transfer of shares from one person to another. When the shares become fully paid, the shareholders' accounts may be transferred to a new Share Ledger in which there may be only a statistical record. In many Registers the Cash Account is retained even after the shares have been fully paid. This facilitates entries for new shares issued to present holders.

Further Statutory Provisions. By the Companies Act, 1929, no trusts are to be entered on the Register. The Register must be kept at the registered office of the company, and must be open to the inspection of any member gratis, and to the inspection of any other person on payment of a fee not exceeding 1s. This right of inspection only applies to a " going " concern; after liquidation has been decided upon, application must be made to the Court. Any member or other person may acquire a copy of the Register, or of any part of it, or of the Annual Return required by the Act, or any part of it, on payment of the prescribed fee. Circular advertising agencies generally avail themselves of this privilege in order to obtain lists of the investing public. A company may, on giving notice by advertisement in some paper circulating in the district in which the registered office is situate, close the Register for any time or times not exceeding in the whole thirty days in each year. The Court has power to rectify the Register in case of mistakes or omissions. The Register of Members is prima facie evidence of any matters directed or authorized by the Act to be inserted therein. A joint stock company whose objects comprise the transaction of business in a colony (including British India and Australia) may, if so authorized by its Articles, keep a branch Register of Members in that colony, and such Dominion Register is deemed to be part of its principal Register. A copy of each entry must be transmitted to

the registered office in order that a duplicate of such Register may be kept there.

Index. Each Share Ledger contains in the front an alphabetical index in order to facilitate ready reference to the individual shareholders' accounts. In some cases, however, a general index is provided to serve for the whole of the Share Ledgers, Ordinary, Preference, Deferred, etc. This shows at a glance whether the same shareholder holds more than one kind of share. Section 96 of the Act lays down regulations on "the index of members of the company," which index is compulsory on a company with a membership above 50.

Posting of Share Ledger. The Register of Members and Share Ledger will be posted up in stages as follows—

1. The names, addresses, occupations, number of shares, distinctive numbers, amount due on application and allotment will be entered up from the Application and Allotments Book (or sheets) into the various shareholders' accounts. The cash received on application and allotment will be posted from the Shareholders' Cash Book to the same accounts.

2. The amounts due on calls from time to time will be credited from the Call Book to the debit of the individual shareholders' accounts, and the cash received on account of calls will be credited from the Shareholders' Cash Book to the same accounts.

3. The shares transferred from time to time will be posted from the Register of Transfers to the shareholders' accounts concerned.

A debit balance in the Cash Account of any shareholder will indicate calls in arrear; while a credit balance therein will denote calls paid in advance.

At balancing time the total of the balances in the various shareholders' accounts should equal the total amount of Called-up Capital after adjustment of any Calls in Advance and Calls in Arrear.

Note re Folios. In posting the Share Ledger folios must, of course, be inserted in order to facilitate subsequent reference. In the statutory and statistical books shown in the worked examples, and which have been posted to the Share Ledger, the first page of each book has not been numbered page 1, but *distinctive* folios have been adopted, viz. 21, 31, 41, and so on. This has been done in order to make the posting clearer to the student, and to enable him to trace the posting references immediately. With a set of model books all numbered page 1, there would, to the student, be no ready or definite clue as to which book was referred to. In actual practice, however, the first page of each book would of course commence at page 1, no matter how many books there were.

Balance Column. In the model Share Ledgers shown in the worked examples, the student will notice a column headed "Balance," with two sub-headings entitled "No. of Shares" and "Amount Paid up"

respectively. Each transaction is entered on a fresh line, and the balance amended accordingly. The amount paid up is increased whenever more money is received, while the number of shares is increased or decreased whenever transfers take place. It is thus possible at any time to see, at a glance, how many shares a shareholder holds, and also the amount paid up on those shares. This also greatly facilitates the preparation of the Annual Return mentioned later on in this chapter.

Example 1. From the particulars given in the Application and Allotments Book, Call Book, Shareholders' Cash Book, and Register of Transfers, in previous examples, write up the company's Ordinary Share Ledger. (See pages 516–521.)

Example 2. From the particulars given in the Application and Allotments Book, Call Book, Shareholders' Cash Book, and Register of Transfers in previous examples, write up the company's Preference Share Ledger. (See pages 522–527.)

A Student Difficulty. Students seem nonplussed when called upon to prepare the forms of statistical books, and to aid them in their difficulty a " plan of recall " as applied to the rulings of a Share Ledger has been subjoined.

Plan of Recall of Columns Comprising a Share Ledger. Take a sheet of foolscap lengthwise (lines being " perpendicular ") and divide it into two equal parts.

Having done this, the left half must be headed " Cash Account " and the right half headed " Shares Account." Next, fill in the " Cash Account " with the usual simple ledger account rulings—namely (*a*) date, (*b*) particulars, (*c*) folio, (*d*) amount. This done, the column for " Amount called up per share " will be remembered and must accordingly be placed between columns (*c*) and (*d*). On completion of the Cash Account rulings, the student will find particulars regarding shares being recalled, and the three divisions regarding the statistical records of shares will occur—(*a*) Shares acquired, (*b*) shares transferred, (*c*) balance. Once the divisions have been made, the appropriate rulings peculiar to them will soon fall in line. As (*a*) and (*b*) are ruled alike, the following columns will be duplicated—(*a*) Date, (*b*) Folio, (*c*) No. of Shares, (*d*) Distinctive Numbers (from — to —), (*e*) Amount. The " Balance " division will easily yield its columns, because it will readily occur to the student that the difference between the number of shares acquired and transferred must be shown; also that the balance of money received to date on the share holding is necessary; hence, the two last columns, namely, (*a*) No. of Shares, and (*b*) Amount Paid-up, will be ruled.

REGISTER OF STOCKHOLDERS

Where shares have been converted into stock, a register of such shares will be necessary, and also a register of the stockholders. The rulings of these books are similar to those shown on page 514.

REGISTER OF SHARES CONVERTED INTO STOCK

Shares Converted							Stock Created			Remarks
Folio in Share Ledger	Name of Holder	No. of Certificate.	Amount	No. of Shares	Inclusive Numbers		Folio in Stock Ledger.	Amount	No. of Certificate	
					From	To				

REGISTER OF STOCKHOLDERS

NAME ______________________________

ADDRESS ______________________________

____

OCCUPATION ______________________________

Stock Acquired					Stock Transferred				Balance	
Date	Folio	Amount	No. of Certificate	Transferor's Folio in Register	Date	Folio	Amount	Transferee's Folio in Register	Date	Amount

101 **REGISTER OF MEMBERS AND SHARE**

Name: *Barker, Matthew B.* Occupation: *Solicitor.*
Address: 71 *Lime Street, Barnes, London, S.W.* 13

Dr. CASH ACCOUNT *Cr.*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	21	10 –	1,000 – –	19 Jan. 2	By Cash	71	312 10 –
					20	" "	72	687 10 –
				1,000 – –				1,000 – –
May 5	To First Call	61	5 –	500 – –	May 18	By Cash	73	250 – –
June 20	" Interest	61		1 1 3	20	" "	"	250 – –
					20	" " (Interest)	"	1 1 3
				501 1 3				501 1 3

102

Clarke, Edward *Solicitor's Clerk.*
120 *Mare Street, Hackney, London, E.*8

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19 Jan. 15	To Appl. and Allot.	21	10 –	10 –	19— Jan. 3	By Cash	71	2 6
					20	" "	72	7 6
				10 –				10 –
May 5	To First Call	61	5 –	5 –	May 9	By Cash	73	5 –

103

Dalton, John F. *H.M.C.S.*
194 *Mildmay Park, London, N.* 1

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	21	10 –	10 –	19— Jan. 4	By Cash	71	2 6
					20	" "	72	7 6
				10 –				10 –
May 5	To First Call	61	5 –	5 –	May 15	By Cash	73	5 –

104

Evans, Fred *Solicitor's Clerk.*
96 *Rood Lane, Brixton, London, S.W.* 2

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	21	10 –	10 –	19— Jan. 4	By Cash	71	2 6
					20	" "	72	7 6
				10 –				10 –
May 5	To First Call	61	5 –	5 –	May 11	By Cash	73	5 –

LEDGER (ORDINARY SHARES) 101

Date entered as a Member: *Jan.* 15*th*, 19—
Date ceased to be a Member:

SHARES ACCOUNT

Shares Acquired								Shares Transferred								Balance			
Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up			Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up			No. of Shares	Amount paid up		
19— Jan. 15	21	2,000	1	2,000												2,000	1,000	–	–
																2,000	1,500	–	–
								19— June 25	41	500	1	500	375	–	–	1,500	1,125	–	–
								July 15	41	500	501	1,000	375	–	–	1,000	750	–	–

102

Jan. 15*th*, 19—

19— Jan. 15	21	1	—	2,001												1		10	–
																1		15	–

103

Jan. 15*th*, 19—

19— Jan. 15	21	1	—	2,002												1		10	–
																1		15	–
Sept. 15	41	200	25,501	25,700	150	–	–									201	150	15	–

104

Jan. 15*th*, 19—

19— Jan. 15	21	1	—	2,003												1		10	–
																1		15	–

REGISTER OF MEMBERS AND SHARE

105

Name: *Mensper, Isaac L.* Occupation: *Surveyor*
Address: 25 *Leyton Street, Boro, London, S.E.*1

Dr. CASH ACCOUNT *Cr.*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	21	10 –	10 –	19— Jan. 6	By Cash	71	2 6
					20	" "	72	7 6
				10 –				10 –
May 5	To First Call	61	5 –	5 –	May 20	By Cash	73	5 –

106

Prince, Ernest O. *Accountant*
12 *Temple Chambers, Holborn, London, E.C.*1

19— Jan. 15	To Appl. and Allot.	21	10 –	10 –	19— Jan. 6	By Cash	71	2 6
					20	" "	72	7 6
				10 –				10 –
May 5	To First Call	61	5 –	5 –	May 14	By Cash	73	5 –

107

Retrop, Thomas P. *Solicitor*
2 *Lucas Street, Bexley*

19— Jan. 15	To Appl. and Allot.	21	10 –	1,247 10 –	19— Jan. 7	By Cash	71	375 – –
					20	" "	72	872 10 –
				1,247 10 –				1,247 10 –
May 5	To First Call	61	5 –	623 15 –	May 13	By Cash	73	123 15
June 20	" Interest	"		2 2 6	June 20	" "	"	500 – –
					30	" " (Interest)	"	2 2 6
				625 17 6				625 17 6

108

Waldron, Frank T. (Vendor) *Merchant*
1 *Penley Mansions, Sidcup*

19— Jan. 15	To Share Capital	J.		15,000 – –		Issued as fully paid		15,000 – –

LEDGER (ORDINARY SHARES) 105

Date entered as a Member: *Jan. 15th,* 19—
Date ceased tc be a Member:

SHARES ACCOUNT

Shares Acquired								Shares Transferred								Balance			
Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up			Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up			No. of Shares	Amount paid up		
19— Jan. 15	21	1	—	2,004												1		10	-
																1		15	-
June 25	41	500	1	500	375	-	-									501	375	15	-

106

Jan. 15*th,* 19—

19— Jan. 15	21	1	—	2,005												1		10	-
																1		15	-
July 15	41	500	501	1,000	375	-	-									501	375	15	-

107

Jan. 15*th,* 19—

19— Jan. 15	21	2,495	2,006	4,500												2,495	1,247	10	-
																2,495	1,871	5	-
Aug. 4	41	1,000	24,501	25,500	750	-	-									3,495	2,621	5	-

108

Jan. 15*th,* 19—

19— Jan. 15	21	15,000	4,501	19,500												15,000	15,000	-	-

109 **REGISTER OF MEMBERS AND SHARE**

Name: *Goode, Ellen (Miss)* **Occupation:** *Spinster*
Address: 114 *High Road, Sydenham* *(Vendor's Nominee)*

Dr. **CASH ACCOUNT** *Cr.*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Share Capital .	J.		5,000 – –		Issued as fully paid .		5,000 – –

110

Longley, James F. *Gentleman*
Park Drive, Bromfield

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot. .	21	10 –	2,750 – –	19— Jan. 8	By Cash . . .	71	1,250 – –
					20	" " . . .	72	1,500 – –
				2,750 – –				2,750 – –
May 5	To First Call . .	61	5 –	1,375 – –	May 17	By Cash . . .	73	1,375 – –

111

Johnson, Henry A. *Gentleman*
65 *Old Steine, Brighton*

112

Thorpe, Fritz B. *Auctioneer*
9 *Minstrel Street, Hastings*

LEDGER (ORDINARY SHARES) **109**

Date entered as a Member: *Jan.* 15*th*, 19—
Date ceased to be a Member:

SHARES ACCOUNT

Shares Acquired						Shares Transferred						Balance	
Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	No. of Shares	Amount paid up
19— Jan. 15	21	5,000	19,501	24,500								5,000	5,000 – –

110

Jan. 15*th*, 19—

Date	Folio	No. of Shares	From	To	Amount paid up	Date	Folio	No. of Shares	From	To	Amount paid up	No. of Shares	Amount paid up
19— Jan. 15	21	5,500	24,501	30,000								5,500	2,750 – –
												5,500	4,125 – –
						19— Aug. 4	41	1,000	24,501	25,500	750 – –	4,500	3,375 – –
						Sept. 15	41	200	25,501	25,700	150 – –	4,300	3,225 – –
						Nov. 10	41	500	25,701	26,200	375 – –	3,800	2,850 – –
						Dec. 15	41	500	26,201	26,700	375 – –	3,300	2,475 – –

111

Nov. 10*th*, 19—

Date	Folio	No. of Shares	From	To	Amount paid up	Date	Folio	No. of Shares	From	To	Amount paid up	No. of Shares	Amount paid up
19— Nov. 10	41	500	25,701	26,200	375 – –							500	375 – –

112

Dec. 15*th*, 19—

Date	Folio	No. of Shares	From	To	Amount paid up	Date	Folio	No. of Shares	From	To	Amount paid up	No. of Shares	Amount paid up
19— Dec. 15	41	500	26,201	26,700	375 – –							500	375 – –

261 **REGISTER OF MEMBERS AND SHARE**

Name: *Holloway, Percy F.* Occupation: *Baker*
Address: 57 *Luton Road, Bedford*

Dr. CASH ACCOUNT *Cr.*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	51	10 –	1,650 – –	19— Jan. 2	By Cash	91	875 – –
					20	„ „	92	775 – –
				1,650 – –				1,650 – –
May 5	To First Call	81	5 –	825 – –	May 19	By Cash	93	825 – –

262

Cooper, Albert O. *Gentleman*
The Cedars, Farnham, Surrey

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	51	10 –	2,500 – –	19— Jan. 2	By Cash	91	2,750 – –
20	„ Cash (returned)	91		250 – –				
				2,750 – –				2,750 – –
May 5	To First Call	81	5 –	1,250 – –	May 8	By Cash	93	1,250 – –

263

Edwards, Henry *Barrister*
3 *Green Lanes, Mitcham*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	51	10 –	700 – –	19— Jan. 3	By Cash	91	400 – –
					20	„ „	92	300 – –
				700 – –				700 – –
May 5	To First Call	81	5 –	350 – –	June 25	By Share Capital		350 – –
20	„ Interest	81		1 9 9		„ Interest A/c		1 9 9
				351 9 9				351 9 9

264

Newton, James T. *Butcher*
7 *The Meat Market, Reading*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl and Allot.	51	10 –	1,700 – –	19— Jan. 4	By Cash	91	1,000 – –
					20	„ „	92	700 – –
				1,700 – –				1,700 – –
May 5	To First Call	81	5 –	850 – –	May 20	By Cash	93	850 – –

LEDGER (PREFERENCE SHARES) 261

Date entered as a Member: *Jan.* 15*th*, 19—
Date ceased to be a Member:

SHARES ACCOUNT

Shares Acquired						Shares Transferred						Balance	
Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	No. of Shares	Amount paid up
19— Jan. 15	51	3,300	50,001	53,300								3,300	1,650 – –
												3,300	2,475 – –
						19— July 2	31	300	50,001	50,300	225 – –	3,000	2,250 – –

262

Jan. 15*th*, 19—

19— Jan. 15	51	5,000	53,301	58,300								5,000	2,500 – –
												5,000	3,750 – –
						19— Aug. 19	31	500	53,301	53,800	375 – –	4,500	3,375 – –

263

Jan. 15*th*, 19—
June 25*th*, 19—

19— Jan. 15	61	1,400	58,301	59,700								1,400	700 – –
					Shares forfeited D.M. No. 87, 25th June, 19—							Nil	— – –

264

June 25*th*, 19—

19— Jan. 15	51	3,400	59,701	63,100								3,400	1,700 – –
												3,400	2,550 – –
						19— Sept. 8	31	400	59,701	60,100	300 – –	3,000	2,250 – –

REGISTER OF MEMBERS AND SHARE

265

Name: *Archer, Frederick* **Occupation:** *Coal Merchant*
Address: 777 *High Street, Cardiff*

Dr. CASH ACCOUNT *Cr.*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	51	10 –	2,000 – –	19— Jan. 4	By Cash	91	1,125 – –
					20	„ „	92	875 – –
				2,000 – –				2,000 – –
May 5	To First Call	81	5 –	1,000 – –	May 10	By Cash	93	1,000 – –

266

Greale, Edward P. *Farmer*
21 *Park Fields, Buckley*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	51	10 –	1,500 – –	19— Jan. 5	By Cash	91	875 – –
					20	„ „	92	625 – –
				1,500 – –				1,500 – –
May 5	To First Call	81	5 –	750 – –	May 12	By Cash	93	250 – –
June 20	„ Interest	81		2 2 6	June 20	„ „	93	500 – –
					„	„ Interest	93	2 2 6
				752 2 6				752 2 6

267

Rawlings, George *Stock Broker.*
114 *Maida Vale, London, W.9*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	51	10 –	750 – –	19— Jan. 5	By Cash	91	375 – –
					20	„ „	92	375 – –
				750 – –				750 – –
May 5	To First Call	81	5 –	375 – –	May 14	By Cash	93	375 – –

268

Brooke, Samuel L. *Brewer.*
15 *Long Street, Burton*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	51	10 –	975 – –	19— Jan. 6	By Cash	91	500 – –
					20	„ „	92	475 – –
				975 – –				975 – –
May 5	To First Call	81	5 –	487 10 –	May 16	By Cash	93	487 10 –

LEDGER (PREFERENCE SHARES) 265

Date entered as a Member: *Jan. 15th,* 19—
Date ceased to be a Member:

SHARES ACCOUNT

Shares Acquired								Shares Transferred								Balance			
Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up			Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up			No. of Shares	Amount paid up		
19—																			
Jan. 15	51	4,000	63,101	67,100												4,000	2,000	—	—
																4,000	3,000	—	—
July 2	31	300	50,001	50,300	225	—	—									4,300	3,225	—	—
Oct. 22	31	1,000	67,101	68,100	750	—	—									5,300	3,975	—	—

266

Jan. 15*th,* 19—

Shares Acquired								Shares Transferred								Balance			
Date	Folio	No. of Shares	From	To	Amount paid up			Date	Folio	No. of Shares	From	To	Amount paid up			No. of Shares	Amount paid up		
19—																			
Jan. 15	51	3,000	67,101	70,100												3,000	1,500	—	—
																3,000	2,250	—	—
								19—											
								Oct. 22	31	1,000	67,101	68,100	750	—	—	2,000	1,500	—	—

267

Jan. 15*th,* 19—

Shares Acquired								Shares Transferred								Balance			
Date	Folio	No. of Shares	From	To	Amount paid up			Date	Folio	No. of Shares	From	To	Amount paid up			No. of Shares	Amount paid up		
19—																			
Jan. 15	51	1,500	70,101	71,600												1,500	750	—	—
																1,500	1,125	—	—
Sept. 8	31	400	59,701	60,101	300	—	—									1,900	1,425	—	—

268

Jan. 15*th,* 19—

Shares Acquired								Shares Transferred								Balance			
Date	Folio	No. of Shares	From	To	Amount paid up			Date	Folio	No. of Shares	From	To	Amount paid up			No. of Shares	Amount paid up		
19—																			
Jan. 15	51	1,950	71,601	73,550												1,950	975	—	—
																1,950	1,462	10	—
Aug. 19	31	500	53,301	53,800	375	—	—									2,450	1,837	10	—

269 **REGISTER OF MEMBERS AND SHARE**

Name: *Lipton, Rufus* . **Occupation**: ***Grocer.***
Address: 42 *Littleton Street, Devizes*

Dr. **CASH ACCOUNT** *Cr.*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	51	10 –	725 – –	19— Jan. 7	By Cash . . .	91	500 – –
					20	" " . . .	92	225 – –
				725 – –				725 – –
May 5	To First Call .	81	5 –	362 10 –	May 17	By Cash . . .	93	362 10 –
					17	" " (in advance) .	93	362 10 –

270
Penley, Claude N. ***Colonel.***
15 *Tothill Mansions, Paignton*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19— Jan. 15	To Appl. and Allot.	56	10 –	2,500 – –	19— Jan. 8	By Cash . . .	91	1,375 – –
					20	" " . . .	92	1,125 – –
				2,500 – –				2,500 – –
May 5	To First Call . .	81	5 –	1,250 – –	May 13	By Cash . . .	93	1,250 – –

271
Truefitt, Percy ***Engineer.***
12 *High Street, Wycombe*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up

272
Vickers, Oswald ***Major.***
179 *Greene Street, Thurston*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up

LEDGER (PREFERENCE SHARES) 269

Date entered as a Member: *Jan.* 15*th*, 19—
Date ceased to be a Member:

SHARES ACCOUNT

Shares Acquired						Shares Transferred						Balance	
Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	No. of Shares	Amount paid up
19— Jan. 15	51	1,450	73,551	75,000								1,450	725 – –
												1,450	1,087 10 –

270

Jan. 15*th*, 19—

19— Jan. 15	51	5,000	75,001	80,000								5,000	2,500 – –
												5,000	3,750 – –
						19— Nov. 15	31	1,000	75,001	76,000	750 – –	4,000	3,000 – –
						Dec. 19	31	1,000	76,001	77,000	750 – –	3,000	2,250 – –

271

Nov. 15*th*, 19—

19— Nov. 15	31	1,000	75,001	76,000	750 – –							1,000	750 – –

272

Dec. 19*th*, 19—

19— Dec. 19	31	1,000	76,001	77,000	750 – –							1,000	750 – –

REGISTER OF CHARGES

Nature and Use. This is one of the statutory books. In it must be entered all charges specifically affecting the property of the Company, and all floating charges on the undertaking or any property of the company, giving in each case a short description of the property charged, the amount of the charge, and (except in the case of securities to bearer) the names of the persons entitled thereto. This Register, and also the copies of instruments creating any charge requiring registration under the Companies Act, 1929, must be open at all reasonable times to the inspection of any creditor or member of the company without fee, and of any other person on payment of a fee not exceeding 1s. The book is ruled in tabular form, and the following is a specimen ruling—

REGISTER OF CHARGES

No. of Charge	Date Charge created	Mortgagee's		Amount of Charge			Particulars of Property charged	Rate of Interest	Remarks
		Name	Address	£	s.	d.			

DEBENTURE APPLICATION AND ALLOTMENTS BOOK

Nature and Use. This is a book ruled in tabular form to record the names, addresses, and occupations of all applicants for debentures, the number of debentures applied for, and the amount deposited with such applications. Additional columns are also provided to record the number of debentures actually allotted, their distinctive numbers, the balance due on allotment, and the amounts subsequently received thereon.

Procedure in Connection with Applications and Allotment of Debentures. The procedure in connection with applications for debentures and allotments thereof is very similar to that adopted with respect to shares. A printed form is filled in, and the requisite money forwarded to the company's bankers. Allotments are then made, and the further sums payable duly remitted to the company's bankers. If any applications are not accepted, the deposit money is returned in full. Certificates are not made out, however, for the total number of debentures held by each person, because each debenture is represented by a separate bond. An applicant

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1929.)

FORM OF APPLICATION FOR FIRST MORTGAGE DEBENTURES.

Issued in 100 Bonds of £100 each, carrying Interest at the rate of £5 per cent. per annum.

To the Directors of the WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED.

Gentlemen,

Having paid to the Company's Bankers the sum of £________, being a deposit of Fifty per cent. on £___________ First Mortgage Debentures in the above-named Company, I request you to allot me such Debentures upon the terms of the Company's Prospectus, and I agree to accept the same, or any smaller amount that may be allotted to me, and I agree to pay the further instalments as provided by and at the dates specified in the said Prospectus, and I authorize you to register me as the holder of the said Debentures.

*Signature*____________________

*Name in full*____

(State whether "Mr.," "Mrs.," or "Miss," and Title, if any.)

Address in full ____

____

____

Occupation ____

*Date*____________________, 19__

All Cheques to be made payable to the Company's Bankers. A separate Cheque must accompany each separate Application.

This sheet should be forwarded ENTIRE to the Company's Bankers, THE METRO BANK, LIMITED, ANNON STREET, LONDON, S.W., together with Cheque.

. . . .

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1929.)

BANKERS' RECEIPT.

RECEIVED this ________________day of________________, 19__,
from ____
for the credit of the WALDRON MANUFACTURING AND TRADING CO., LTD., the sum of £____________________, being a deposit of Fifty per cent. on £__________ First Mortgage Debentures in the above-named Company.

For the METRO BANK, LIMITED

---------- *Stamp.* ----------

£ : : *Cashier.*

This Receipt, when returned from the Bankers, to be preserved by the Applicant for exchange in due course for Debentures.

receiving an allotment of 20 debentures, will eventually receive 20 separate bonds. If the debentures are payable by more than two instalments (application and allotment), the conditions of issue may provide that the debenture bond shall not be issued until fully paid up. Scrip certificates (see page 508) will then be made out in the meantime, in the same way as is done for shares issued under similar conditions.

Example. The Waldron Manufacturing and Trading Co., Ltd., having power in its Memorandum to issue £10,000 5 per cent Debentures in bonds of £100 each, offered the same for public subscription on 1st February, payable 50 per cent on application and 50 per cent on allotment.

Applications were received, and allotments made, as under—

			No. of Debentures	
			Applied for.	Allotted.
Feb.	16.	Robert O. Stevenson, Solicitor, 65 Seaforth Road, Ealing, London, W.	25	20
	16.	Philip J. Clarke, Cashier, 29 Winter Street, Salisbury	8	5
	16.	John Andrews, Accountant, 78 Burdett Road, Andover	5	nil
	17.	Arthur Beazley, Banker, 11 Pellett Grove, Bristol	8	5
	17.	Frederick Norman, Merchant, 66 Queen's Avenue, Swindon	10	10
	17.	Maurice Baxter, Engineer, 45 Aubert Park, Winchester	10	10
	19.	Charles A. Pitley, Printer, 72 Bassett Square, Reading	8	5
	19.	David Headlam, Gentleman, 116 Sidney Road, W. Croydon	25	20
	20.	Henry Williams, Stockbroker, 78 Walm Lane, Oxford	5	nil
	20.	George I. Stoddart, Accountant, 5 Woodquest Street, Leytonstone	8	5
	21.	Alfred K. Foster, Tailor, 237 Shirley Road, Yeovil	10	10
	21.	Lionel C. Reeve, Actuary, 111 Francis Street, Tooting, London, S.W.	10	10

Letters of Regret, Nos. 1 and 2, were sent to Andrews and Williams,

101 **DEBENTURE APPLICATION AND**

No. of Application	Name	Address	Occupation	No. of Debentures applied for	Amount paid on Application		
1	*Stevenson, Robert O.*	*65 Seaforth Road, Ealing, W.*	*Solicitor*	25	1,250	–	–
2	*Clarke, Philip J.*	*29 Winter Street, Salisbury*	*Cashier*	8	400	–	–
3	*Andrews, John*	*78 Burdett Road, Andover*	*Accountant*	5	250	–	–
4	*Beazley, Arthur*	*11 Pellett Grove, Bristol*	*Banker*	8	400	–	–
5	*Norman, Frederick*	*66 Queen's Avenue, Swindon*	*Merchant*	10	500	–	–
6	*Baxter, Maurice*	*45 Aubert Park, Winchester*	*Engineer*	10	500	–	–
7	*Pitley, Charles A.*	*72 Bassett Square, Reading*	*Printer*	8	400	–	–
8	*Headlam, David*	*116 Sidney Road, W. Croydon*	*Gentleman*	25	1,250	–	–
9	*Williams, Henry*	*78 Walm Lane, Oxford*	*Stockbroker*	5	250	–	–
10	*Stoddart, George I.*	*5 Woodquest St., Leytonstone*	*Accountant*	8	400	–	–
11	*Foster, Alfred K.*	*237 Shirley Road, Yeovil*	*Tailor*	10	500	–	–
12	*Reeve, Lionel C.*	*111 Francis St., Tooting, S.W.*	*Actuary*	10	500	–	–
				132	6,600	–	–

and their deposits returned in full. Allotments were made on 22nd February in order of application, the debentures being numbered from 001 upwards. The moneys due on allotment were payable by 1st March, on which date they were duly received. Write up the Application and Allotments Book and subsidiary Cash Book.

111 DEBENTURE HOLDERS CASH BOOK 111

Dr. *Cr.*

Date	Receipts	D.L. Folio	Amount	Date	Payments	D.L. Folio	Amount
19—				19—			
Feb. 16	To Application A/c—			Feb. 22	By Application A/c—		
16	Stevenson, R. O.	301	1,250 – –	22	Andrews, J.	C.	250 – –
16	Clarke, P. J.	302	400 – –	22	Williams, H.	C.	250 – –
16	Andrews, J.	C.	250 – –	Mar. 1	„ Transfer to General Cash Book		10,000 – –
17	Beazley, A.	303	400 – –				
17	Norman, F.	304	500 – –				
17	Baxter, M.	305	500 – –				
19	Pitley, C. A.	304	400 – –				
19	Headlam, D.	307	1,250 – –				
20	Williams, H.	C.	250 – –				
20	Stoddart, G. I.	308	400 – –				
21	Foster, A. K.	309	500 – –				
21	Reeve, L. C.	310	500 – –				
Mar. 1	„ Allotment A/c—						
	Stevenson, R. O.	301	750 – –				
	Clarke, P. J.	302	100 – –				
	Beazley, A.	303	100 – –				
	Norman, F.	304	500 – –				
	Baxter, M.	305	500 – –				
	Pitley, C. A.	304	100 – –				
	Headlam, D.	307	750 – –				
	Stoddart, G. I.	308	100 – –				
	Foster, A. K.	309	500 – –				
	Reeve, L. C.	310	500 – –				
			10,500 – –				10,500 – –

ALLOTMENTS BOOK 101

No. of Debentures allotted	Distinctive Numbers From	Distinctive Numbers To	Debenture Ledger Folio	Amount due on Application and Allotment	Balance due on Allotment	Cash paid on Allotment	Cash Returned	Remarks
20	001	020	301	2,000 – –	750 – –	750 – –		
5	021	025	302	500 – –	100 – –	100 – –		
—	—	—	—	—	—	—	250 – –	*Letter of Regret, No. 1*
5	026	030	303	500 – –	100 – –	100 – –		
10	031	040	304	1,000 – –	500 – –	500 – –		
10	041	050	305	1,000 – –	500 – –	500 – –		
5	051	055	306	500 – –	100 – –	100 – –		
20	056	075	307	2,000 – –	750 – –	750 – –		
—	—	—	—	—	—	—	250 – –	*Letter of Regret, No. 2*
5	076	080	308	500 – –	100 – –	100 – –		
10	081	090	309	1,000 – –	500 – –	500 – –		
10	091	100	310	1,000 – –	500 – –	500 – –		
100				10,000 – –	3,900 – –	3,900 – –	500 – –	

DEBENTURE BOND.

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1929.)

Registered Office: 208 Lilac Street, London, W.C.

ISSUE OF £10,000 FIRST MORTGAGE DEBENTURES,
in 100 Bonds of £100 each,
bearing interest at the rate of £5 per cent. per annum.

No. 056. **DEBENTURE.** £100

1. The WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED (hereinafter called " the Company "), hereby covenants to pay to the Registered Holder, on presentation of this Debenture, on the 1st day of July, 19__, or at such earlier date as the principal moneys hereby secured shall become payable, at the Registered Office of the Company or at their Bankers, the sum of One Hundred Pounds.

2. The Company will in the meantime pay to the Registered Holder for the time being Interest on the said £100 at the rate of £5 per cent. per annum by equal half-yearly payments on the 30th of June and the 31st December in each year, the first of such payments to be made on the 31st December, 19__.

3. The Company hereby charges, by way of floating security, all its real and personal property (present and future), its stock-in trade, goodwill, and all the undertaking, also its uncalled Capital with the payment of the principal and interest.

4. The principal moneys hereby secured shall immediately become payable if the Company makes default for a period of one calender month in the payment of any interest hereby secured.

5. This Debenture is one of a series of 100 ranking equally, and is issued subject to the conditions indorsed hereon, which are deemed to be part of it.

GIVEN UNDER THE COMMON SEAL OF THE COMPANY

this______________day of______________, 19__.

____________________ }
____________________ } *Directors.*

____
Secretary.

DEBENTURE CALL BOOK

Nature and Use. This is a book ruled in tabular form to record the names and addresses of the debenture holders, the number of debentures held, the amount due from each debenture holder in respect of the call, and also the amounts actually paid. The following is a specimen ruling—

Call of £________per Debenture, made________payable by__________

Deb. Led. Folio	Name	Address	No. of Debs. held	Amount due on Call			Amount paid on Call			Remarks.

Debentures are more commonly made payable on application and allotment. When calls are made, however, the procedure is similar to that in connection with shares.

DEBENTURE TRANSFER REGISTER

Nature and Use. This is a book ruled in tabular form similar to the Transfer Register for shares. It records the names, addresses, and occupations of both transferor and transferee, the number of debentures transferred, their distinctive numbers, the amount paid up thereon, and the date the transfer was registered. The procedure in connection with the transfer of debentures is almost identical with that in respect of shares.

Example. The following transfers of debentures were made, approved, and duly registered in the books of the Waldron Manufacturing and Trading Co., Ltd.—

2nd April, 6 debentures (001–006) from R. O. Stevenson to A. Beazley; No. of transfer deed, No. 1.

14th April, 5 debentures (031–035) from F. Norman to C. A. Pitley.

26th April, 3 debentures (041–043) from M. Baxter to G. I. Stoddart.

15th May, 2 debentures (007–008) from R. O. Stevenson to L. C. Reeve.

27th May, 10 debentures (056–065) from D. Headlam to William Marshman, Barrister, 7 Union Road, Wells.

20th June, 2 debentures (021–022) from P. J. Clarke to James T. Howard, Schoolmaster, 81 Penton Street, Bath.

Write up the company's Debenture Transfer Register.

131 DEBENTURE TRANS

No. of Transfer	Date Transfer Registered	Transferor's					
		Deb. Led. fol.	Name	Address	Occupation	Deb. Led. fol.	Name
	19—						
1	*April* 2	301	*Stevenson, R. O.*	65 *Seaforth Rd., Ealing*	*Solicitor*	303	*Beazley, A.*
2	„ 14	304	*Norman, F.*	66 *Queen's Avenue, Swindon*	*Merchant*	306	*Pitley, C. A.*
3	„ 26	305	*Baxter, M.*	45 *Aubert Park, Winchester*	*Engineer*	308	*Stoddart, G. I.*
4	*May* 15	301	*Stevenson, R. O.*	65 *Seaforth Road, Ealing*	*Solicitor*	310	*Reeve, L. C.*
5	„ 27	307	*Headlam, D.*	116 *Sidney Rd., W. Croydon*	*Gentleman*	311	*Marshman, William.*
6	*June* 20	302	*Clarke, P. J.*	29 *Winter Street, Salisbury*	*Cashier*	312	*Howard, James T.*

REGISTER OF DEBENTURE HOLDERS

Nature and Use. Though not specifically mentioned in the Act, it is necessary, in practice, to keep such a register. It is ruled in tabular form, similar to the Register of Shareholders, and records the names, addresses, and the occupations of the debenture holders, the number of debentures held, their distinguishing numbers, and the amounts paid up on each debenture. Where the debentures are fully paid, only a statistical record will be kept, but where the debentures are not fully paid, a Cash Account will be kept in addition to the statistical record.

Register to be Open to Inspection. By Section 73 of the Companies Act, every Register of Debenture Holders of a company, except when closed in accordance with the Articles (not exceeding thirty days in any year), must be open to the inspection of the registered holder of any such debentures, and of any holder of shares in the company, for not less than two hours in each day. Every such holder may, on payment of the prescribed fee, require a copy of the Register or any part of it, or a copy of any trust deed for securing any issue of debentures.

Posting the Debenture Register. The Register of Debenture Holders is entered up from the Debenture Application and Allotment Book, Debenture Call Book (if any), the subsidiary Debenture Cash Books, and from the Register of Debenture Transfers. The Balance Column will show the number of debentures held at any given date, and the amounts paid thereon.

Example. From the particulars given in the Application and Allotments Book, subsidiary Cash Book, and Register of Transfers, in the previous examples, write up the company's Register of Debenture Holders. (See pages 536–538.)

FER REGISTER 131

Transferee's		Debentures Transferred						Remarks
Address	Occupation	No.	Distinctive Numbers		Amount paid up			
			From	To	£	s.	d.	
11 *Pellett Grove, Bristol*	*Banker*	6	001	006	600	–	–	
72 *Bassett Sq., Reading*	*Printer*	5	031	035	500	–	–	
Woodquest St., Leytonstone	*Accountant*	3	041	043	300	–	–	
111 *Francis St., Tooting, S.W.*	*Actuary*	2	007	008	200	–	–	
7 *Union Road, Wells*	*Barrister*	10	056	065	1,000	–	–	
81 *Penton St., Bath*	*Schoolmaster*	2	021	022	200	–	–	

REGISTER OF DEBENTURE STOCKHOLDERS

Where debenture stock has been issued, or where debentures have been converted into stock, a register of the stockholders will be required. A specimen ruling is shown on page 539.

DEBENTURE INTEREST BOOK

Nature and Use. This is a book ruled in tabular form, which gives particulars each half-year of the names of the debenture holders, the amount of debentures held, the gross amount of interest accrued due thereon, the tax deductible, and the net interest payable to the debenture holders.

Example. From the particulars recorded in the Register of Debenture Holders, assuming there to be no further change, write up the Debenture Interest Book for the half-year ended 31st December.

DEBENTURE INTEREST BOOK

Deb. Led. fol.	Name	Amount of Debentures held			Half Year's Interest at 5 %			Amount of Tax at 4s.			Net Interest			Remarks
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	
301	Stevenson, R. O.	1,200	–	–	30	–	–	6	–	–	24	–	–	
302	Clarke, P. J.	300	–	–	7	10	–	1	10	–	6	–	–	
303	Beazley, A..	1,100	–	–	27	10	–	5	10	–	22	–	–	
304	Norman, F.	500	–	–	12	10	–	2	10	–	10	–	–	
305	Baxter, M. .	700	–	–	17	10	–	3	10	–	14	–	–	
306	Pitley, C. A.	1,000	–	–	25	–	–	5	–	–	20	–	–	
307	Headlam, D.	1,000	–	–	25	–	–	5	–	–	20	–	–	
308	Stoddart, G. I.	800	–	–	20	–	–	4	–	–	16	–	–	
309	Foster, A. K.	1,000	–	–	25	–	–	5	–	–	20	–	–	
310	Reeve, L. C.	1,200	–	–	30	–	–	6	–	–	24	–	–	
311	Marshman, W.	1,000	–	–	25	–	–	5	–	–	20	–	–	
312	Howard, J. T.	200	–	–	5	–	–	1	–	–	4	–	–	
	£	10,000	–	–	250	–	–	50	–	–	200	–	–	

NOTE. This rate of tax is not now in force. The current rate of Income Tax is 5s. in £.

REGISTER OF DEBENTURE HOLDERS

301 — 301

Name : *Stevenson, Robert O.* — Occupation : *Solicitor.*

Address : 65 *Seaforth Road, Ealing, London, W.5*

Debentures Acquired						Debentures Transferred or Redeemed						Balance	
Date	Folio	No. of Debs.	Distinctive Numbers From	Distinctive Numbers To	Amount paid up.	Date	Folio	No. of Debs.	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	No. of Debs.	Amount paid up
19—													
Feb. 16	C.B. 111				1,250 – –								
Mar. 1	A.B. 101	20	001	020	750 – –							20	2,000 – –
						19— Apr. 2	T.R. 131	6	001	006	600 – –	14	1,400 – –
						May 15	T.R. 131	2	007	008	200 – –	12	1,200 – –

302 — 302

Clarke, Philip J. — *Cashier.*

29 *Winter Street, Salisbury*

Date	Folio	No. of Debs.	From	To	Amount paid up	Date	Folio	No. of Debs.	From	To	Amount paid up	No. of Debs.	Amount paid up
19—													
Feb. 16	C.B. 111				400 – –								
Mar. 1	A.B. 101	5	021	025	100 – –							5	500 – –
						19— June 20	T.R. 131	2	021	022	200 – –	3	300 – –

303 — 303

Beazley, Arthur — *Banker.*

11 *Pellett Grove, Bristol*

Date	Folio	No. of Debs.	From	To	Amount paid up	Date	Folio	No. of Debs.	From	To	Amount paid up	No. of Debs.	Amount paid up
19—													
Feb. 17	C.B. 111				400 – –								
Mar. 1	A.B. 101	5	026	030	100 – –							5	500 – –
Apr. 2	T.R. 131	6	001	006	600 – –							11	1,100 – –

304 — 304

Norman, Frederick — *Merchant.*

66 *Queen's Avenue, Swindon*

Date	Folio	No. of Debs.	From	To	Amount paid up	Date	Folio	No. of Debs.	From	To	Amount paid up	No. of Debs.	Amount paid up
19—													
Feb. 17	C.B. 111				500 – –								
Mar. 1	A.B. 101	10	031	040	500 – –							10	1,000 – –
						19— Apr. 14	T.R. 131	5	031	035	500 – –	5	500 – –

305 **REGISTER OF DEBENTURE HOLDERS** 305

Name: *Baxter, Maurice* Occupation: *Engineer.*
Address: 45 *Aubert Park, Winchester*

Debentures Acquired						Debentures Transferred or Redeemed						Balance	
Date	Folio	No. of Debs.	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	Date	Folio	No. of Debs.	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	No. of Debs.	Amount paid up
19—													
Feb. 17	C.B. 111				500 – –								
Mar. 1	A.B. 101	10	01	050	500 – –							10	1,000 – –
						19—							
						Apr. 26	T.R. 131	3	041	043	300 – –	7	700 – –

306 306

Pitley, Charles A. *Printer.*
72 *Bassett Square, Reading*

19—													
Feb. 19	C.B. 111				400 – –								
Mar. 1	A.B 101	5	051	055	100 – –							5	500 – –
Apr. 14	T R 131	5	031	035	500 – –							10	1,000 – –

307 307

Headlam, David *Gentleman.*
116 *Sidney Road, West Croydon*

19—													
Feb. 1	C B 111				1,250 – –								
Mar. 1	A.B. 101	20	056	075	750 – –							20	2,000 – –
						19—							
						May 27	T.R 131	10	056	065	1000 – –	10	1,000 – –

308 308

Stoddart, George I. *Accountant.*
Woodquest Street, Leytonstone

19—													
Feb. 20	C B 111				400 – –								
Mar. 1	A B 101	5	076	080	100 – –							5	500 – –
Apr. 26	T R 131	3	041	043	300 – –							8	800 – –

309 REGISTER OF DEBENTURE HOLDERS 309

Name: *Foster, Alfred K.* Occupation: *Tailor.*
Address: 237 *Shirley Road, Yeovil*

Debentures Acquired						Debentures Transferred or Redeemed						Balance	
Date	Folio.	No of Debs.	Distinctive Numbers. From.	To.	Amount paid up.	Date.	Folio.	No of Debs.	Distinctive Numbers From.	To.	Amount paid up.	No. of Debs.	Amount paid up.
19—													
Feb. 21	C.B. 111				500 – –								
Mar. 1	A.B. 101	10	081	090	500 – –							10	1,000 – –

310 *Reeve, Lionel C.* *Actuary.* 310
111 *Francis Street, Tooting, London, S.W.* 17

19—													
Feb. 21	C.B. 111				500 – –								
Mar. 1	A.B. 101	10	091	100	500 – –							10	1,000 – –
May 15	T.R. 131	2	007	008	200 – –							12	1,200 – –

311 *Marshman, William* *Barrister.* 311
7 *Union Road, Wells*

19—													
May 27	T.R. 131	10	056	065	1,000 – –							10	1,000 – –

312 *Howard, James T.* *Schoolmaster.* 312
81 *Penton Street, Bath*

19—													
June 20	T.R. 131	2	021	022	200 – –							2	200 – –

REGISTER OF DEBENTURE STOCKHOLDERS

Name..

Address..

Occupation..

Debenture Stock Acquired					Debenture Stock Transferred or Redeemed				Balance	
Date [1]	Folio [2]	No. of Certificate	Amount	Trans-feror's Folio	Date [3]	Folio [4]	Amount	Trans-feree's Folio	Date	Amount

[1] Of Allotment, or of Registration of Transfer (if so acquired).
[2] Of Debenture Stock Application and Allotments Book, or of Register of Transfers of Debenture Stock.
[3] Of Registration of Transfer.
[4] Of Register of Transfers of Debenture Stock, or of Cash Book.

DIVIDEND BOOK

Nature and Use. This is a book, ruled in tabular form, which records at balancing time the names of the shareholders, the amount paid up on the shares held by each individual, the gross amount of dividend due, the amount of tax (if any) deductible, and the net amount of dividend payable to each shareholder. Separate books are kept for the dividends on different classes of shares, Ordinary, Preference, Deferred, etc.

Example 1. The directors of the Waldron Manufacturing and Trading Co., Ltd., resolved to pay, free of tax, a dividend of 10 per cent on the Ordinary Shares for the year ending 31st December, according to the amounts paid up thereon. From the particulars furnished in the Register of Ordinary Shares, write up the Ordinary Share Dividend Book.

ORDINARY SHARE DIVIDEND BOOK

31ST DEC., 19—

O.S.L. folio.	Name.	Amount paid up on Shares.	Amount of Dividend at 10 %.	Amount of Tax at 4s.	Net Dividend.	Remarks.
101	Barker, M. B.	750 – –	75 – –			Free of tax
102	Clarke, E.	15 –	1 6			"
103	Dalton, J. F.	150 15 –	15 1 6			"
104	Evans, Fred	15 –	1 6			"
105	Mensper, I. L.	375 15 –	37 11 6			"
106	Prince, E. O.	375 15 –	37 11 6			"
107	Retrop, T. P.	2,621 5 –	262 2 6			"
108	Fairleaf, Frank	15,000 – –	1,500 – –			"
109	Goode, Ellen	5,000 – –	500 – –			"
110	Longley, J. F.	2,475 – –	247 10 –			"
111	Johnson, H. A.	375 – –	37 10 –			"
112	Thorpe, F. B.	375 – –	37 10 –			"
		27,500 – –	2,750 – –			

NOTE. The rate of tax above is not now in force.

Example 2. The directors of the Waldron Manufacturing and Trading Co., Ltd., resolved to pay less tax at 4s. 0d., the 6 per cent dividend on the Preference Shares for the year ending 31st December, according to the amounts paid thereon. From the particulars recorded in the Register of Preference Shares, write up the Preference Share Dividend Book. (See next page.)

PREFERENCE SHARE DIVIDEND BOOK

31st DEC., 19..

P.S.L. folio	Name	Amount paid up on Shares £	s.	d.	Amount of Dividend at 6% £	s.	d.	Amount of Tax at 4s. £	s.	d.	Net Dividend £	s.	d.	Remarks
261	Holloway, P. F. .	2,250	–	–	135	–	–	27	–	–	108	–	–	
262	Cooper, A. O. . .	3,375	–	–	202	10	–	40	10	–	162	–	–	
264	Newton, J. F. . .	2,250	–	–	135	–	–	27	–	–	108	–	–	
265	Archer, F. . .	3,975	–	–	238	10	–	47	14	–	190	16	–	
266	Greale, E. P. . .	1,500	–	–	90	–	–	18	–	–	72	–	–	
267	Rawlings, G. . .	1,425	–	–	85	10	–	17	2	–	68	8	–	
268	Brooke, S. L. . .	1,837	10	–	110	5	–	22	1	–	88	4	–	
269	Lipton, Rufus . .	1,087	10	–	65	5	–	13	1	–	52	4	–	
270	Penley, Claude N.	2,250	–	–	135	–	–	27	–	–	108	–	–	
271	Truefitt, P. . .	750	–	–	45	–	–	9	–	–	36	–	–	
272	Vickers, O. . .	750	–	–	45	–	–	9	–	–	36	–	–	
	£	21,450	–	–	1,287	–	–	257	8	–	1,029	12	–	

NOTE. The rate of tax above is not now in force.

REGISTER OF DIRECTORS OR MANAGERS

Nature and Use. This is one of the statutory books. The Companies Act, 1929, Section 144, requires every company to keep at its registered office a register containing the names, addresses, and occupations and other particulars of its directors or managers, and to send to the registrar of companies a copy thereof, and from time to time to notify to the Registrar any change among its directors or managers.

REGISTER OF DIRECTORS OR MANAGERS

The present Christian Name or Names and Surname	Any former Christian Name or Names or Surname	Nationality	Nationality of Origin (if other than the present Nationality)	Usual Residence	Other Business Occupations, if any (including other directorships). (If none, state so.)

MINUTE BOOK

Nature and Use. This is another of the statutory books. The Companies Act, Section 120, enacts that every company must cause minutes of all proceedings of general meetings and (where there are directors or managers) of its directors and managers to be entered in books kept for that purpose. Any such minute if purporting to be signed by the chairman of the meeting at which the proceedings were had, or by the chairman of the next succeeding meeting, is evidence of the proceedings.

In most companies two books are kept: one, called the Shareholders' or General Minute Book, to record notes of the proceedings of the members in general meetings; and the other, called the Directors' Minute Book, to record notes of the proceedings of board meetings. The books should preferably be provided with an alphabetical index, so that minutes may be indexed under suitable headings in order to facilitate reference.

SHARE WARRANT REGISTER

Definition. This is a register giving particulars of the share warrants which have been issued by the company. It is ruled in tabular form as shown on page 543.

Share Warrant. This is a document under the seal of the company, which entitles the holder of it to the shares specified therein. It is subject to a stamp duty equal to three times the amount of the *ad valorem* duty chargeable on a deed transferring shares of the same nominal value, i.e. 60s. per cent. It is transferable by mere delivery; and this fact makes it a very convenient instrument, particularly in the case of companies having foreign shareholders. The following is a specimen—

No.________

ZENO TRADING COMPANY, LIMITED.

(Incorporated under the Companies Act, 1929.)

CAPITAL £100,000.

50,000 ORDINARY SHARES OF £1 EACH.
50,000 6% PREFERENCE SHARES OF £1 EACH.

Stamp.

SHARE WARRANT.

THIS IS TO CERTIFY that the Bearer of this Warrant is the proprietor of________fully paid-up 6% Preference Shares of £1 each, numbered ________to________inclusive in the ZENO TRADING COMPANY, LIMITED, subject to the provisions of the Memorandum and Articles of Association of the Company.

GIVEN UNDER THE COMMON SEAL of the Company this__________ day of_____________19____

____
______________________________ } *Directors.*

Seal

____
Secretary.

SHARE WARRANT REGISTER

Warrants Issued							Warrants Surrendered				Remarks
Date	No. of Warrant	To Whom	Contents of Warrant Shares			Folio of Share Ledger	Date	No. of Warrant	By Whom	Folio of Share Ledger	
			No. of Shares	Numbers							
				From	To						

The bearer of a share warrant is, subject to the Articles of the company, entitled on surrendering it for cancellation, to have his name entered as a member in the Register of Members. The date of such surrender must also be entered in the Register as if it were the date at which a person ceased to be a member.

Statutory Provisions. Section 70 of the Companies Act enacts as follows—

(1) A company limited by shares, if so authorized by its articles, may, with respect to any fully paid up shares, issue under its common seal a warrant stating that the bearer of the warrant is entitled to the shares therein specified, and may provide, by coupons or otherwise, for the payment of the future dividends on the shares included in the warrant.

(2) Such a warrant as aforesaid is in this Act termed a " share warrant."

(3) A share warrant shall entitle the bearer thereof to the shares therein specified, and the shares or stock may be transferred by delivery of the warrant.

STATUTORY REPORT

Particulars of this will be found on pages 376 and 377 and on the next page is a specimen report adapted to the particulars given in the previous exercises in connection with allotment of shares and debentures.

REGISTER OF PROBATES AND LETTERS OF ADMINISTRATION

Probate. The Probate is the official evidence that the person named therein is the executor of a deceased shareholder, and Letters of Administration authorize the person named therein to administer the estate of a shareholder who has died intestate. Both documents bear the seal of the Court of Probate.

When a shareholder dies leaving an executor, or if, for any reason, there is no executor and the Court appoints an Administrator, the Probate or Letters of Administration are lodged at the company's office by the executor or administrator. Such person, having thus become the legal personal representative, has then two alternatives—

1. He may (unless the Articles give the company the right to insist upon a personal representative becoming registered as a member or selling the shares) content himself with simply registering his right to deal with the deceased shareholder's stocks and shares in the company.

2. He may, when lodging the probate or letters of administration, ask to be registered as a member.

If the first course is adopted the secretary of the company makes a memorandum in the Share Register against the deceased shareholder's name.

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

STATUTORY REPORT OF THE DIRECTORS.

PURSUANT to Section 113 of the Companies Act, 1929, your Directors beg to report as follows:—

(a) The total number of Shares allotted is 60,000, of which 20,000 are allotted as fully paid up, in part consideration of the goodwill and assets of the business, and upon each of the remaining Shares the sum of 10s. 0d. has been paid in Cash.

(b) The total amount of cash received by the Company in respect of the Shares issued wholly for Cash is £20,000.

(c) The Receipts and Payments of the Company on Capital Account to 20th March, 19—, are as follows:—

Particulars of Receipts	£	s.	d.	Particulars of Payments	£	s.	d.
To Application and Allotment instalments—				By Vendor (part payment of purchase price)	10,000	-	-
Ordinary Shares	5,000	-	-	„ Preliminary Expenses	3,000	-	-
Preference Shares	15,000	-	-	„ Printing and Stationery	120	-	-
Debentures	10,000	-	-				
	30,000	-	-		13,120	-	-

The Preliminary Expenses of the Company are estimated at £4,000.

(d) The following are the Names, Addresses, and Descriptions of the Directors, Auditors, Manager, and Secretary of the Company:—

Directors.

FRANK T. WALDRON, Merchant, 1 Penley Mansions, Sidcup.
THOMAS RETROP, Solicitor, 2 Lucas Street, Bexley.
COOPER ALBERT O., Gentleman, The Cedars, Farnham.
JAMES F. LONGLEY, Gentleman, 6 Park Drive, Bromfield.

Auditors.

FREDERICK SHARPE & Co., Chartered Accountants, 67–69 Temple Avenue, Holborn, London, E.C. 2

Manager.

FRANK T. WALDRON, Merchant, 1 Penley Mansions, Sidcup.

Secretary.

THOMAS DUNSCOMBE MATTHEWS, Chartered Secretary, 27 Finsbury Park Road, London, N. 22

(e) Particulars of Contract, the modification of which is to be submitted to the meeting for its approval together with the particulars of the modification or proposed modification:—

We hereby certify that this Report is correct.

FRANK T. WALDRON,
THOMAS RETROP, } *Directors.*

Auditors' Report.

We hereby certify that so much of this Report as relates to the Shares and Debentures allotted by the Company and to the Cash received in respect of such Shares and Debentures, and to the Receipts and Payments of the Company on Capital Account is correct.

F. SHARPE & Co.,
Chartered Accountants, } *Auditors.*

Dated this 20th day of March, 19—

" Probate or / Letters of administration granted on______________

to______________________of etc., Executor or / Administrator.

Date__________________ "

He makes a similar memorandum on the back of the share certificate and returns it endorsed to the executor or administrator. The advantages of this procedure to the executor are—

(*a*) He is only liable to the extent of the estate for any calls on the shares. (*b*) He can transfer the shares by virtue of Section 65 of the Companies Act.

If the second alternative is adopted by the executor and he desires to become registered as a member, the secretary closes the deceased shareholder's account in the Share Register and opens a new account in the name of the executor, who becomes thereby responsible *personally* for any uncalled liability on the shares. The procedure necessarily depends on the Articles of Association. Sometimes, a "Letter of Request" is all that is required, but in many cases the directors insist upon a transfer from the personal representative *as executor* to the personal representative *personally*.

In large companies, a Register is frequently kept, giving the deceased shareholders' names and folios in the Share Ledger, the names and addresses of the executors or administrators, date of death, date of probate, date probate was registered, and any further particulars that may be thought desirable.

ANNUAL RETURN

Section 108 of the Companies Act, 1929, directs that—

(1) Every company having a share capital shall once at least in every year make a return containing a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year, are members of the company, and of all persons who have ceased to be members since the date of the last return, or, in the case of the first return, of the incorporation of the company.

(2) The list must state the names, addresses, and occupations of all the past and present members therein mentioned, and the number of shares held by each of the existing members at the date of the return, specifying shares transferred since the date of the last return or, in the case of the first return, of the incorporation of the company by persons who are still members and have ceased to be members respectively and the dates of registration of the transfers, and, if the names therein are not arranged in alphabetical order, must have annexed to it an index sufficient to enable the name of any person in the list to be readily found;

Provided that, where the company has converted any of its shares into stock and given notice of the conversion to the registrar of companies, the list must state the amount of stock held by each of the existing members instead of the amount of shares and the particulars relating to shares hereinbefore required.

(3) The return must also state the address of the registered office of the company and must contain a summary distinguishing between shares issued

for cash and shares issued as fully or partly paid up otherwise than in cash, and specifying the following particulars—

(*a*) The amount of the share capital of the company, and the number of the shares into which it is divided;

(*b*) The number of shares taken from the commencement of the company up to the date of the return;

(*c*) The amount called up on each share;

(*d*) The total amount of calls received;

(*e*) The total amount of calls unpaid;

(*f*) The total amount of the sums, if any, paid by way of commission in respect of any shares or debentures;

(*g*) Particulars of the discount allowed on the issue of any shares issued at a discount, or of so much of that discount as has not been written off at the date on which the return is made;

(*h*) The total amount of the sums, if any, allowed by way of discount in respect of any debentures, since the date of the last return;

(*i*) The total number of shares forfeited;

(*k*) The total amount of shares for which share warrants are outstanding at the date of the return;

(*l*) The total amount of share warrants issued and surrendered respectively since the date of the last return;

(*m*) The number of shares comprised in each share warrant;

(*n*) All such particulars with respect to the persons who at the date of the return are the directors of the company, as are by this Act required to be contained with respect to directors in the register of the directors of a company;

(*o*) The total amount of the indebtedness of the company in respect of all mortgages and charges which are required (or, in the case of a company registered in Scotland, which, if the company had been registered in England, would be required) to be registered with the Registrar of companies under this Act, or which would have been required so to be registered if created after the first day of July, nineteen hundred and eight.

(4) The returns shall be in accordance with the form set out in the Sixth Schedule to this Act, or as near thereto as circumstances admit.

(5) In the case of a company keeping a dominion register, the particulars of the entries in that register shall, so far as they relate to matters which are required to be stated in the return, be included in the return made next after copies of those entries are received at the registered office of the company.

The Annual Return must be kept in a separate part of the Register of Members as laid down in Section 110 of the Act which reads as follows—

(1) The annual return must be contained in a separate part of the register of members, and must be completed within twenty-eight days after the first or only general meeting in the year, and the company must forthwith forward to the registrar of companies a copy signed by a director or by the manager or by the secretary of the company.

(2) Section ninety-eight of this Act shall apply to the annual return as it applies to the register of members.

Attached to the Annual Return must be a copy of the last audited Balance Sheet of the company as laid down in Section 110 of the Act which reads as follows—

(3) Except where the company is a private company, or is an assurance company which has complied with the provisions of subsection (4) of section seven of the Assurance Companies Act, 1909, the annual return shall include a written

copy, certified by a director or the manager or secretary of the company to be a true copy, of the last balance sheet which has been audited by the company's auditors, including every document required by law to be annexed thereto, together with a copy of the report of the auditors thereon certified as aforesaid, and if any such balance sheet is in a foreign language there shall also be annexed to it a translation thereof in English, certified in the prescribed manner to be a correct translation.

Provided that, if the said last balance sheet did not comply with the requirements of the law as in force at the date of the audit with respect to the form of balance sheets there shall be made such additions to and corrections in the said copy as would have been required to be made in the said balance sheet in order to make it comply with the said requirements, and the fact that the said copy has been so amended shall be stated thereon.

Section 111 provides that—

A private company shall send with the annual return required by section one hundred and eight of this Act a certificate signed by a director or the secretary of the company that the company has not, since the date of the last return, or, in the case of a first return, since the date of the incorporation of the company, issued any invitation to the public to subscribe for any shares or debentures of the company, and, where the annual return discloses the fact that the number of members of the company exceeds fifty, also a certificate so signed that the excess consists wholly of persons who under paragraph (*b*) of subsection (1) of section twenty-six of this Act, are not to be included in reckoning the number of fifty.

Example. From the particulars recorded in the Ordinary and Preference Share Ledgers, Transfer Registers, Register of Directors, etc., prepare the company's Annual Return, and draw up a Balance Sheet. (See pp. 549–552.)

QUESTIONS ON CHAPTER XIV

A

1. What books is a joint stock company compelled by law to keep?
2. What statistical books are usually kept by a joint stock company?
3. Explain the nature and use of an Application and Allotments Book.
4. Describe briefly the procedure in connection with applications for shares from time of receipt up to allotment.
5. Explain the following and their use: (*a*) letter of allotment, (*b*) letter of regret.
6. Describe the procedure in connection with the issue of shares as fully or partly paid to the vendor.
7. Explain the following: (*a*) letter of renunciation, (*b*) return of allotments.
8. What subsidiary Cash Books are used in connection with the receipt of money on shares? What objection is raised against them? What alternative procedure is there?

B

1. Explain the nature and use of a Call Book.
2. How are calls made? What is a Notice of Call?
3. Describe briefly the procedure after a call has been made by the directors.
4. How does the question of interest arise in connection with calls, and how is it treated?
5. Submit *pro forma* ruling of a Call Book, and enter therein six specimen entries.

FORM OF ANNUAL RETURN OF A COMPANY HAVING A SHARE CAPITAL

ANNUAL RETURN OF THE ________*Waldron Manufacturing and Trading Company*__________ LIMITED,

made up to the_____*14th*_____day of_____*February*_____19___ (being the fourteenth day after the date of the first or only ordinary general meeting in 19___).

The address of the registered office of the Company is as follows—

____

____

SUMMARY OF SHARE CAPITAL AND SHARES

Nominal Share Capital, £___100,000_____divided into—

__50,000 *Ordinary* __	shares of £	__1______ each.
__50,000 *Preference*__	shares of £	__1______ each.

Total number of shares taken up to the__*14th*___day of___*February*,____19___, being the date of the return (which number must agree with the total shown in the list as held by existing members)	__10,000 *Ord.* __28,600 *Pref.*
Number of shares issued subject to payment wholly in cash	__38,600______
Number of shares issued as fully paid up otherwise than in cash	__20,000______
Number of shares issued as partly paid up to the extent of__________per share otherwise than in cash	___*Nil*______
Number of_________shares (if any) issued at a discount	___*Nil*______
Total amount of discount on the issue of shares which has not been written £_____ of at the date of this Return . . . . £	___*Nil*______
There has been called up on each of__10,000 *Ordinary*______shares . . £	___*15s.*______
„ „ „ „ __28,600 *Preference* _____ „ . . £	___*15s.*______
„ „ „ „ ____________________ „ . . £	___*Nil*______
Total amount of calls received, including payments on application and allotment £	__29,650______
Total amount (if any) agreed to be considered as paid on __20,000 *Ordinary*_____ shares which have been issued as fully paid up otherwise than in cash . £	__20,000______
Total amount (if any) agreed to be paid on_______shares which have been issued as partly paid up to the extent of_______per share otherwise than in cash £	___*Nil*______
Total amount of calls unpaid . . . . £	___*Nil*______
Total amount of the sums (if any) paid by way of commission in respect of any shares or debentures or allowed by way of discount in respect of any debentures since the date of the last Return. . . . . £	___*Nil*______
Total number of shares of forfeited___1,400 *Preference*.	
Total amount paid (if any) on __1,400 *Preference*___ shares forfeited . . £	___700______
Total amount of shares for which share warrants to bearer are outstanding . £	___*Nil*______
Total amount of share warrants to bearer issued and surrendered respectively since the date of the last Return . . . . £	___*Nil*______
Number of shares comprised in each share warrant to bearer	___*Nil*______
Total amount of the indebtedness of the Company in respect of all mortgages and charges of the kind which are required (or, in the case of a company registered in Scotland, which, if the company had been registered in England, would be required) to be registered with the Registrar of companies under the Companies Act, 1929.	__£10,000 ____

COPY OF LAST AUDITED BALANCE SHEET OF THE COMPANY

NOTE. Except where the Company is (1) a " Private Company " within the meaning of Section 26 of the Companies Act, 1929, or is (2) an Assurance Company which has complied with the provisions of Section 7 (4) of the Assurance Companies Act, 1909, this Return must include a written copy, certified by a Director or by the Manager or Secretary of the Company to be a true copy, of the last balance sheet which has been audited by the Company's auditors (including every document required by law to be annexed thereto) together with a copy of the report of the auditors thereon (certified as aforesaid), and if any such balance sheet is in a foreign language there must also be annexed to it a translation thereof in English certified in the prescribed manner to be a correct translation. If the said last balance sheet did not comply with the requirements of the law as in force at the date of the audit with respect to the form of balance sheets there must be made such additions to and corrections in the said copy as would have been required to be made in the said balance sheet in order to make it comply with the said requirements, and the fact that the said copy has been so amended must be stated thereon.

PARTICULARS OF THE DIRECTORS OF

THE WALDRON MANUFACTURING AND TRADING COMPANY, LTD.

on the *fourteenth* day of *February*, 19..

The present Christian Name or Names and Surname	Any former Christian Name or Names or Surname	Nationality	Nationality of Origin (if other than the present Nationality)	Usual Residence	Other Business Occupations if any (including Directorships in other companies) (If none, state so.)
Waldron, Frank T., Managing Director		*British*		*1 Penley Mansions, Sidcup*	*Commercial Traveller*
Retrop, Thomas	*Otto Braun*	*British*	*German*	*2 Lucas Street, Bexley*	*None*
Cooper, Albert O.		*British*		*The Cedars, Farnham*	*None*
Archer, Frederick		*British*		*777 High Street, Cardiff*	*Printer*
Longley, James F., Chairman of Directors		*British*		*6 Park Drive, Bromfield*	*None*
Penley, Claude N.		*British*	*U.S.A.*	*15 Tothill Mansions, Paignton*	*Director X Y Z Ltd., Manchester.*

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Capital and Liabilities	£	s.	d.	£	s.	d.
Nominal Capital— 50,000 Ordinary Shares of £1 each	50,000	–	–			
50,000 Preference Shares of £1 each	50,000	–	–			
	100,000	–	–			
Issued Capital— 20,000 Ordinary Shares, £1, fully paid				20,000	–	–
10,000 Ordinary Shares, 15s., called	7,500	–	–			
Add Calls paid in advance	362	10	–			
				7,862	10	–
28,600 Preference Shares of £1 each, 15s. paid				21,450	–	–
5% Mortgage Debentures— 100 Bonds of £100 each				10,000	–	–
Trade Creditors				5,081	5	5
Forfeited Shares (1,400 10s. paid)				700	–	–
Profit and Loss A/c— Balance at credit				10,050	9	6
				£75,144	4	11

Property and Assets	£	s.	d.	£	s.	d.
Goodwill (at cost)				5,000	–	–
Loose Plant and Tools (as valued by the company's Manager)				5,636	12	8
Fixed Assets— Freehold Land (at cost less depreciation)				8,045	10	6
Buildings (at cost less depreciation)				10,760	16	3
Fixed Plant and Machinery (at cost less depreciation)				10,020	15	6
Floating Assets— Stocks on hand				10,040	8	6
Trade Debtors				10,125	3	4
Cash in hand and at Bank				15,514	18	2
				£75,144	4	11

Signed..

Auditors to the Company.

List of Persons holding Shares in___*The Waldron Manufacturing*__
on the________*14th*________day of______*February*____, 19____, and of
last Return, or (in the case of the first Return) of the incorporation of
Shares

Folio in Register Ledger containing Particulars	NAMES, ADDRESSES, AND OCCUPATIONS			
	Surname	**Christian Name**	**Address**	**Occupation**
O.S.L.				
101	*Barker*	*Matthew*	*71 Lime Street, Barnes*	*Solicitor*
102	*Clarke*	*Edward*	*120 Mare Street, Hackney, E.8*	*Solicitor's Clerk*
103	*Dalton*	*John*	*194 Mildmay Park, London, N.1*	*H.M.C.S.*
104	*Evans*	*Fred*	*96 Rood Lane, Brixton, S.W. 2*	*Solicitor's Clerk*
105	*Mensper*	*Isaac*	*25 Leyton Street, Boro, London, S.E.1*	*Surveyor*
106	*Prince*	*Ernest*	*12 Temple Chambers, Holborn, E.C.1*	*Accountant*
107	*Retrop*	*Thomas*	*2 Lucas Street, Bexley*	*Solicitor*
108	*Waldron*	*Frank*	*1 Penley Mansions, Sidcup*	*Merchant*
109	*Goode*	*Ellen*	*114 High Road, Sydenham*	*Spinster*
110	*Longley*	*James*	*6 Park Drive, Bromfield*	*Gentleman*
111	*Johnson*	*Henry*	*65 Old Steine, Brighton*	*Gentleman*
112	*Thorpe*	*Fritz*	*9 Minstrel Street, Hastings*	*Auctioneer*
P.S.L.				
261	*Holloway*	*Percy*	*57 Luton Road, Bedford*	*Baker*
262	*Cooper*	*Albert*	*The Cedars, Farnham, Surrey*	*Gentleman*
263	*Edwards*	*Henry*	*3 Green Lanes, Mitcham*	*Barrister*
264	*Newton*	*James*	*7 The Meat Market, Reading*	*Butcher*
265	*Archer*	*Frederick*	*777 High Street, Cardiff*	*Coal Merchant*
266	*Greale*	*Edward*	*21 Park Fields, Buckley*	*Farmer*
267	*Rawlings*	*George*	*114 Maida Vale, London, W.9*	*Stock Broker*
268	*Brooke*	*Samuel*	*15 Long Street, Burton*	*Brewer*
269	*Lipton*	*Rufus*	*42 Littleton Street, Devizes*	*Grocer*
270	*Penley*	*Claude*	*15 Tothill Mansions, Paignton*	*Colonel*
271	*Truefitt*	*Percy*	*12 High Street, Wycombe*	*Engineer*
272	*Vickers*	*Oswald*	*179 Greene Street, Thurston*	*Major*

* The Aggregate Number of Shares held, and not the Distinctive Numbers, must be stated, and the column must be added up throughout, so as to make one total to agree with that stated in the Summary to have been taken up.

† When the Shares are of different classes these columns may be subdivided, so that the number of each class held, or transferred, may be shown separately.

*and Trading Company*___________________________________Limited, Persons who have held Shares therein at any time since the date of the the Company, showing their Names and Addresses, and an Account of the so held.

ACCOUNT OF SHARES									REMARKS
* Number of Shares held by existing Members at date of Return †		‡ Particulars of Shares transferred since the date of the last Return or (in the case of the first Return) of the incorporation of the Company by Persons who are still Members			‡ Particulars of Shares transferred since the date of the last Return or (in the case of the first Return) of the incorporation of the Company by Persons who have ceased to be Members				
		Number †		Date of Registration of Transfer	Number †		Date of Registration of Transfer		
Ord.	Pref.	Ord.	Pref.		Ord.	Pref.			
1,000		500		25 *June*, 19—					*Mensper, I. L.*
		500		15 *July*, 19—					*Prince, E. O.*
1									
201									
1									
501									
501									
3,495									
15,000									
5,000									
		1,000		4 *Aug.*, 19—					*Retrop, T. P.*
3,300		200		15 *Sept.*, 19—					*Dalton, J. F.*
		500		10 *Nov.*, 19—					*Johnson, H. A.*
		500		15 *Dec.*, 19—					*Thorpe, F. B.*
500									
500									
	3,000		300	2 *July*, 19—					*Archer, F.*
	4,500		500	19 *Aug.*, 19—					*Brooke, S. L.*
	—								*1,400 Pref. Shares forfeited*
	3,000		400	8 *Sept.*, 19—					*Rawlings, G.*
	5,300								
	2,000		1,000	22 *Oct.*, 19—					*Archer, F.*
	1,900								
	2,450								
	1,450								
	3,000		1,000	15 *Nov.*, 19—					*Truefitt, P.*
			1,000	19 *Nov.*, 19—					*Vickers, O.*
	1,000								
	1,000								
30,000	28,600								

(Signature)_____*J. Dunscombe Matthews*________

(State whether Manager or Secretary)_____*Secretary*_______

‡ The Date of Registration of each Transfer should be given, as well as the Number of Shares transferred on each date. The particulars should be placed opposite the name of the Transferor, and not opposite that of the Transferee, but the name of the Transferee may be inserted in the "*Remarks*" column, immediately opposite the particulars of each Transfer.

6. Explain the nature and use of a Register of Transfers.
7. How are shares transferred? What duty is payable on transfers?
8. State briefly the provisions of Table A in regard to transfers.
9. What is meant by "registration" of transfers? Explain the usual procedure in connection therewith.
10. Explain the following: (*a*) forged transfer, (*b*) blank transfer, (*c*) Forged Transfers Acts.

C

1. Describe briefly the procedure known as "certification" of transfers.
2. Submit *pro forma* ruling of a Register of Transfers and enter therein six specimen entries.
3. Explain the nature and use of a Share Certificate Book.
4. What are the provisions of the Companies Acts with regard to share certificates?
5. Can a duplicate share certificate be obtained?
6. What is a "scrip" certificate? What stamp does it require?
7. Explain the nature and use of the Register of Members and Share Ledger. What are the statutory requirements in connection therewith?
8. What date should be entered in the Register of Members as date of entry?
9. What two distinct forms of ruling are there as regards Share Ledgers?
10. State briefly some of the statutory provisions with respect to the Register of Members. Can a company keep a Dominion Register?

D

1. How are Share Ledgers indexed?
2. State briefly the various steps by which the Share Ledger is posted.
3. What does (*a*) a *debit* balance, (*b*) a *credit* balance in the Cash Account of any shareholders' accounts signify?
4. How can the balances in the Share Ledger be agreed with those in the financial books?
5. Explain the use of the "Balance" column in a Share Ledger Account.
6. Submit *pro forma* ruling of a Register of Members and Share Ledger, and enter therein six specimen entries; also *pro forma* ruling of a Register of Stockholders.
7. Explain the nature and use of a Register of Charges. Submit *pro forma* ruling of same.
8. Explain the nature and use of a Debenture Application and Allotments Book.
9. Describe the procedure in connection with applications for debentures and allotments thereof.
10. Submit *pro forma* ruling of a Debenture Application and Allotments Book, and enter therein six specimen entries.

E

1. Explain the nature and use of a Debenture Call Book, and submit *pro forma* ruling of same.
2. Explain the nature and use of a Debenture Transfer Register.
3. Submit *pro forma* ruling of a Debenture Transfer Register, and make six specimen entries therein.
4. Explain the nature and use of a Register of Debenture Holders. What are the statutory provisions in regard thereto?
5. How is the Register of Debenture Holders posted?
6. Submit *pro forma* ruling of a Register of Debenture Holders, and enter therein six specimen items; also *pro forma* ruling of a Register of Debenture Stockholders.

7. Explain the nature and use of a Debenture Interest Book. Submit *pro forma* ruling, and make three specimen entries therein.

8. Explain the nature and use of a Dividend Book. Submit *pro forma* ruling, and enter three specimen items therein.

9. Describe briefly the nature and use of the following: (*a*) Register of Directors or Managers, (*b*) Minute Book, (*c*) Share Warrant and Share Warrant Register, (*d*) Register of Probates.

10. Give some particulars regarding a Company's Annual Return.

EXERCISE XIV

1. On 1st July the British Aerodrom Co., Ltd., issued a prospectus offering to the public 50,000 Ordinary Shares of the company of £1 each, 2s. 6d. per share payable on application and 7s. 6d. on allotment; the balance to be called up as required. The list was closed on 4th July, and on the 5th the directors met to allot the shares, when it was found that applications had been received for 61,000 shares, as follows—

John Jones, London	10,000 shares
D. O. George, Flint	1,000 ,,
Sir William Flyon, Dublin	5,000 ,,
Henry Wing, Dover	5,000 ,,
Sundry Persons	40,000 ,,

The shares were allotted as follows: John Jones, 5,000; D. O. George, none; Sir W. Flyon, 1,000; H. Wing, 4,000; and Sundry Persons, 40,000. The amounts payable on allotment were all received on or before the 15th July. Rule a suitable form of Applications and Allotments Book and make the entries therein necessary to record the above transactions. (*Chartered Accountants.*)

2. On 20th January the Eastwood Timber Co., Ltd., allotted 500 Ordinary Shares of £1 each, number 18,500 to 18,999, to Ernest Willington, 33 Rayleigh Street, E.C., and on the same day they sent him a letter of regret with reference to the further 500 shares for which he had applied.

E. Willington paid for the shares allotted to him as follows: 11th January, 5s. per share on application; 20th January, 5s. per share on allotment; and 10s. per share (final call) on 20th February.

On 28th February, E. Willington purchased a further 500 shares, Nos. 1 to 500, on the Stock Exchange, for which he paid 21s. per share. The transfer was lodged and approved on 6th March. These shares were purchased from R. Gee, 14 High Street, Burnham.

On 31st March, E. Willington sold 100 shares, Nos. 1 to 100, to Peter Robinson, 14 Dowgate Street, Southminster, at 25s. per share, the transfer being lodged on 1st April and approved on 3rd April.

Show the transactions as they would appear in the statistical books of the Eastwood Timber Co., Ltd. Ignore all questions of brokerage, stamps, and transfer fees. (*Royal Society of Arts.*)

3. Give suitable rulings for the Share Ledger of a limited Company and enter therein the following particulars—

John Smith, Cork Merchant, 440 Austin Friars, E.C., applied, on 2nd January, for 150 Ordinary Shares of £1 each, and forwarded the necessary 2s. 6d. per share with his application.

On 12th January, John Smith forwarded a further 2s. 6d. per share on being informed by the company that 150 Ordinary Shares (numbered 1 to 150) had been allotted to him.

On 10th March, a call of 5s. per share was notified by the Company, and was duly paid by John Smith on his holding on 15th March.

On 3rd April, John Smith sold 100 of his shares (numbered 1 to 100) to William Brown, Hatter, 486 Bond Street, W., at 12s. 6d. per share, the transfer being in due course accepted by the company. (*London Chamber of Commerce.*)

4. The Companies Act, 1929, enacts that every Public Limited Company shall make an "Annual Return." Give an example of such a "Return," inserting all the details necessary that the document prepared shows all the particulars required, as enumerated in Sect. 108 of the Act.

5. The undermentioned persons applied for shares in the X Y Z Manufacturing Co., Ltd. The shares offered for subscription were shares of £1 each, payable 5s. per share on application, 7s. 6d. on allotment, and the balance as and when required. The distinctive numbers of the shares allotted ran from No. 1 upwards. The list was closed on 1st February, and some of the allotments made were as under—

	Shares Applied for	Shares Allotted
Arthur Roberts, Wool Merchant, 10 Finsbury Street, Burnton	4,000	3,000
Henry P. Richards, Gentleman, The Grange, Lynford, Hants	3,000	2,000
Lucas Norton, Iron Manufacturer, 114 Princes Street, Sheffield	5,000	4,000
Ellen Allerton, Spinster, Park Grove, Finchley	200	nil
Norman Princeton, Stock Broker, 120 Lombard Street, London, E.C.3	5,000	4,000
George L. Lloyd, Lace Manufacturer, 178 High Road, Nottingham	500	500

All moneys due on allotment were received by 15th February. Write up the Application and Allotments Book for the above.

6. The Pneumatic Tyre Co., Ltd., on 1st March, allotted to Robert Essley, Merchant, of 115 Walkley Road, Thornheath, 500 Ordinary Shares of £1 each, number 721 to 1220 inclusive, upon an application dated 23rd February, Essley having on that day paid to the Company's Bankers a deposit of 2s. 6d. per share on 100 shares. The amount due on allotment was 5s. per share, which was duly paid on 10th March. On 1st May the company made a First Call of 5s. per share, which was duly paid on the 15th May. On 25th June, Essley purchased from Thomas King, Surveyor, of 14 The Lanes, Farnham, the last 100 of King's 500 shares (numbered 1 to 500 inclusive), upon which 12s. 6d. per share had been paid up; the transfer was registered on 1st July. On 31st August the company made a further call of 2s. 6d. per share, which was duly paid on 15th September. On 1st October, Essley sold to John Tinton (a new shareholder), Merchant, of 115 Lime Street, Halifax, 80 shares, numbered 801 to 880 inclusive, 15s. per share paid up, the transfer being registered on 12th October. On 15th October the company called up the remaining 5s. per share, which was duly paid on 25th October. On 25th November, Essley sold to Philip Brown (a new shareholder), Engineer, of 9 Lupus Street, Benfield, the remainder of his shares, the transfer being registered on 2nd December. Write up the above transactions in the Company's Share Ledger, showing the accounts of Essley, King, Tinton, and Brown.

7. Referring to the previous exercise, enter the transfers therein mentioned into the company's Transfer Register, assuming the numbers of the transfer deeds and of new certificates.

8. The undermentioned persons applied for, in the order named, and were, with one exception, duly allotted shares of £1 each offered for subscription by Soleil D'or, Limited. The shares were payable as to 5s. per share on application, 5s. per share on allotment, and the balance as and when determined by resolution of the directors. The distinctive numbers allocated to the shares in question ran from 1 onwards. The application list was closed on 1st July, and all allotment moneys were paid on or before 15th July.

Make the entries recording the application for, and allotment of, the following shares in the Application and Allotments Book of the Company.

	Shares Applied for	Shares Allotted
Robert Rheid, 16 Finsbury Circus, E.C., Wool Broker	5,000	5,000
George Dewey, 261 Low Pavement, Nottingham, Lace Manufacturer	1,000	500
Robert Richmond, Eastwood, Essex, Rose Grower	2,000	2,000
Florence Veitch, The Manse, Loamtown, Spinster	100	nil

(*Royal Society of Arts.*)

9. The following is the Balance Sheet of the Northern Iron Co., Ltd., as at 30th September, 19..—

	£	£
ASSETS—		
Freehold Land, at cost		20,000
Buildings, at cost	39,000	
Additions, at cost . . .	2,000	
	41,000	
Depreciation	1,000	
		40,000
(*subject to Mortgage, per contra*)		
		60,000
Fixed Plant and Machinery, value as taken over by the Company . .	140,000	
Additions at cost . . .	17,000	
	157,000	
Depreciation	7,000	
		150,000
Loose Plant, Tools, and Patterns, as valued by the Company's Managers.		50,000
Stock-in-trade, as taken and valued by the Company's Managers . .		80,000
Sundry Trade Debtors . . .	110,000	
Less Reserve for Bad Debts and Discounts	5,500	
		104,500
Goodwill		40,000
Preliminary and Formation Expenses .		10,500
		£495,000

	£	£
CAPITAL AND LIABILITIES—		
Nominal Capital, £500,000 divided into 200,000 6% Cumulative Preference Shares of £1 each, and 300,000 Ordinary Shares of £1 each.		
Paid-up Capital—		
200,000 Ordinary Shares of £1 each	200,000	
100,000 6% Cumulative Preference Shares of £1 each . .	100,000	
		300,000
First Mortgage Debentures . .		75,000
Mortgage on Freehold Land and Buildings, *contra*		20,000
County Bank for Overdraft . .		5,000
Sundry Trade Creditors . . .		60,000
Reserve Fund		20,000
Profit and Loss Account . . .		15,000
		£495,000

Remodel above Balance Sheet in conformity with regulation contained in the Companies Act (Sect. 124). (*Chartered Accountants.*)

10. The Auto Brake Co., Ltd., was registered with a Capital of £100,000, consisting of 50,000 Ordinary Shares of £1 each, and 50,000 Preference Shares of £1 each. The objects of the Company were *inter alia* to acquire the goodwill and assets of the business of Arthur P. Dalton. The purchase price was to be paid as to £20,000 in fully paid Ordinary Shares, allotted either to the vendor or his nominees. Of the Ordinary Shares 10,000 were offered on 1st January for public subscription, payable 2s. 6d. per share on application, 7s. 6d. on allotment, and the balance in calls not exceeding 5s. per share. Applications were received, and allotments made, as follows—

			No. of Shares Applied for	No. of Shares Allotted
Jan.	2.	Robert T. Lake, Solicitor, 16 Bradford Road, Leeds (including 1 as signatory) .	2,800	2,000
,,	3.	Arthur F. Brown, Solicitor's Clerk, 19 Rufus Street, Bradford (signatory) .	1	1
,,	4.	Frederick Cassell, H.M.C.S., 176 Park Road, Finsbury, London, N.W. (signatory)	1	1
,,	4.	Thomas O. Neller, Solicitor's Clerk, 127 Brownley Road, Hampstead, London, N.W. (signatory)	1	1
,,	6.	Norman P. Locksley, Surveyor, 125 Coldthorpe Avenue, Brixton, London, S.W. (signatory)	1	1
,,	6.	Ernest Chalmers, Accountant, 17 Buller Street, Nottingham (signatory) . .	1	1
,,	7.	Frank T. Bullen, Solicitor, 12 Luke Street, Bexley (including 1 as signatory) .	3,500	2,495
,,	7.	Arthur P. Dalton, Merchant, 124 Nightingale Road, Liverpool (vendor) . .	—	15,000
,,	7.	Robert O. Brookes, Architect, 72 High Road, Fulham, London, S.W. (vendor's nominee)	—	5,000

			No. of Shares Applied for	No. of Shares Allotted
Jan.	7.	Thomas Oldham, Grocer, 145 Pamply Street, Manchester	500	nil
„	8.	John P. Silverlock, Gentleman, Clere Park, Winthorpe	10,500	5,500
„	8.	Mrs. Ellen Bradley, Widow, 62 Oldthimp Mansions, Burghley	500	nil

Allotments were made on 15th January in order of application, and the shares were numbered from 1 upwards. No allotments were made to Oldham and Mrs. Bradley, whose deposits were duly returned in full together with Letters of Regret Nos. 1 and 2. The moneys due on allotment were payable by 20th January, by which date they were all received. Write up the Application and Allotments Book, and subsidiary Cash Book, recording the above particulars.

11. The Auto Brake Co., Ltd., offered to the public on 1st January 30,000 6 per cent Preference Shares, payable as follows: 5s. per share on application, 5s. per share on allotment, and the balance in calls not exceeding 5s. per share. Applications were received, and allotments made, as under—

			No. of Shares Applied for	No. of Shares Allotted
Jan.	2.	Thomas O. Lucas, Baker, 62 Cold Harbour Lane, Bedford	2,500	2,000
„	2.	Percy F. Allen, Gentleman, Park Gates Mansion, Framley	10,000	6,000
„	3.	Albert R. Simpson, Clerk, 164 High Road, Burnham	120	nil
„	3.	George T. Roberts, Barrister, 24 Keble Street, Tooting Graveney, London, S.W.	1,800	1,500
„	4.	Henry Peters, Butcher, 84 High Street, Merton, London, S.W.	4,500	3,500
„	4.	Arthur O. Greenham, Coal Merchant, Leethorpe Road, Cardiff	5,000	4,000
„	5.	James Smithers, Farmer, Park Farm, Brimsley	3,500	3,000
„	5.	Edward E. Thompson, Brewer, 72 Shingle Street, Burton	1,600	1,500
„	6.	Frederick P. Martin, Clerk, 169 Tonge Road, Kealey	2,500	2,000
„	6.	Samuel Short, Stock Broker, 72 Moreton Road, Piccadilly, W.	150	nil
„	7.	Philip J. Ruthven, Grocer, 29 Lake Street, Bashton	2,000	1,500
„	8.	Rufus O. Barnard, Major, 15 Lipton Mansions, Thornton Heath	5,500	5,000

Deposits were returned in full with Letters of Regret, Nos. 3 and 4 to Simpson and Short. Allotments were made on 15th January in order of application, the shares being numbered from 50,001 upwards. Write up the Application and Allotments Book, and subsidiary Cash Book, recording the above particulars.

12. From the previous two exercises, Nos. 10 and 11, make out in the prescribed form the statutory Return of Allotments.

13. On 5th May, the directors of the Auto Brake Co., Ltd., made a first

call of 5s. per share on the Ordinary Shares. The call was payable by the 20th May, and the following amounts were received—

				£	s.	d.
May	9.	R. T. Lake . . .	2,000 Shares	300	–	–
„	11.	A. F. Brown . . .	1 Share		5	–
„	13.	F. Cassell	1 „		5	–
„	14.	T. O. Neller . . .	1 „		5	–
„	15.	N. P. Locksley . . .	1 „		5	–
„	17.	E. Chalmers . . .	1 „		5	–
„	18.	F. T. Bullen . . .	2,495 Shares	323	15	–
„	20.	J. P. Silverlock . . .	5,500 „	1,375	–	–

Lake and Bullen were allowed till 20th June to pay the balance, plus interest at 5 per cent, on which date the sums due (including interest thereon) were duly received. Write up from Exercises 10 and 11 and the above particulars the Call Book and the subsidiary Cash Book.

14. On 5th May, the directors of the Auto Brake Co., Ltd., made a first call of 5s. per share on the Preference Shares. The call was payable by the 20th May, and the following amounts were received—

May	8.	R. O. Barnard	5,000 Shares	£1,250
„	10.	P. J. Ruthven	1,500 „	375
„	12.	F. P. Martin	2,000 „	250
„	13.	E. E. Thompson	1,500 „	750
„	14.	J. Smithers	3,000 „	750
„	16.	A. O. Greenham	4,000 „	500
„	17.	H. Peters	3,500 „	875
„	19.	O. F. Allen	6,000 „	1,500
„	20.	T. O. Lucas	2,000 „	500

F. P. Martin and A. O. Greenham were allowed till 20th June to pay the balance, on which date the sums due (plus interest thereon at 5 per cent) were duly received. No money at all was received from G. T. Roberts, whose Shares were forfeited on 25th June. Write up the Call Book and subsidiary Cash Book.

15. The following transfers of Ordinary Shares were made, approved, and duly registered in the books of the Auto Brake Co., Ltd.—

June 23rd, 200 shares (1–200) from R. T. Lake to N. P. Locksley; No. of transfer deed, No. 1.

July 13th, 500 shares (201–700) from R. T. Lake to F. T. Bullen.

August 2nd, 1,000 shares (24,501–25,500) from J. P. Silverlock to F. T. Bullen.

September 15th, 300 shares (25,501–25,800) from J. P. Silverlock to F. T. Bullen.

November 18th, 500 shares (25,801–26,300) from J. P. Silverlock to Arthur Finchley, Solicitor, 11 Jupiter Street, Yeovil.

December 12th, 500 shares (26,301–26,800) from J. P. Silverlock to Robert T. Penwith, Leather Merchant, 11 Tower Street, Bermondsey, London, S.E.

Write up the Company's Register of Transfers.

16. The following transfers of Preference Shares were made, approved, and duly registered in the books of the Auto Brake Co., Ltd.—

July 22nd, 500 shares (50,001–50,500) from T. O. Lucas to H. Peters; transfer deed No. 101.

August 15th, 500 shares (52,001–52,500) from P. F. Allen to H. Peters.

September 10th, 1,000 shares (63,001–64,000) from A. O. Greenham to F. P. Martin.

October 20th, 500 shares (64,001–64,500) from A. O. Greenham to F. P. Martin.

November 8th, 500 shares (70,001–70,500) from E. E. Thompson to F. R. Smithers, Lace Merchant, 7 Royal Street, Nottingham.

December 12th, 1,000 shares (75,001–76,000) from R. O. Barnard to T. S. Lupus, Corn Factor, 11 High Street, Basingstoke.

Write up the Company's Register of Transfers.

17. From the particulars given in Exercises Nos. 10, 13, and 15, write up the Auto Brake Co.'s Ordinary Share Ledger.

18. From the particulars furnished in Exercises Nos. 11, 14, and 16, write up the Auto Brake Co.'s Preference Share Ledger.

19. The Auto Brake Co., Ltd., having taken power in its Memorandum of Association to issue £10,000 debentures in bonds of £100 each, offered the same for public subscription on 1st March, payable 40 per cent on application and 60 per cent on allotment. Applications were received, and allotments made, as under—

			Applied for	Allotted
Mar.	2.	Robert E. Adams, Baker, 61 Carnaby Street, Birmingham	30	20
,,	3.	Alfred Brady, Surveyor, 17 Seaford Road, Liverpool	10	10
,,	4.	William S. Cooper, Butcher, 21 Regent Street, Leeds	6	nil
,,	4.	Charles T. Dawson, Architect, 44 Windsor Road, Manchester	10	5
,,	5.	Henry Ellis, Solicitor, 21 Crofton Street, Warwick	6	5
,,	5.	Philip O. Forster, Artist, 12 Penton Road, Nottingham	6	5
,,	6.	Edward Goodwin, Journalist, 75 Percy Street Reading	10	10
,,	7.	Catherine E. Howard, Spinster, 25 Burnaby Gardens, Winchester	25	20
,,	7.	Walter Irving, Engineer, 112 Brockley Road, Southampton	10	5
,,	8.	Thomas D. Jeffries, Merchant, 29 Granville Street, London, W.	5	nil
,,	8.	Matthew Lockwood, Barrister, 108 Westbourne Grove, Windsor	5	5
,,	8.	Lionel F. Taylor, Gentleman, 76 Stewart Road, London, W.	20	15

Allotment was made on 10th March in order of application, the numbers of the debentures running from 1 upwards. No allotment was made to Cooper and Jeffries, whose deposits were duly returned with Letters of Regret, Nos. 5 and 6. The moneys payable on allotment were all received by 20th March. Write up the Debenture Applications and Allotments Book and subsidiary Cash Book.

20. The following transfers of debentures were made, approved, and duly registered in the books of the Auto Brake Co., Ltd.—

May 15th, 5 Debentures (1–5) from R. E. Adams to C. T. Dawson; No. of transfer deed, No. 101.

June 10th, 5 Debentures (56–60) from C. E. Howard to H. Ellis.

,, 15th, 5 Debentures (86–90) from L. F. Taylor to P. O. Foster.

,, 25th, 5 Debentures (61–65) from C. E. Howard to H. Ellis.

July 9th, 5 Debentures (6–10) from R. E. Adams to James Burnaby, Merchant, 112 Leman Street, Northampton.

Aug. 22nd, 5 Debentures (91–95) from L. F. Taylor to Rupert Armstrong, Engineer, 95 Bromley Road, Newcastle.

Write up the Debenture Transfer Register.

21. From the particulars given in exercises 19 and 20, write up the Auto Brake Co.'s Register of Debenture Holders.

22. From the particulars recorded in the Auto Brake Co.'s Register of Debenture Holders (exercise 21), assuming there to be no further change, write up the Debenture Interest Book for the half-year ended 31st December.

23. The directors of the Auto Brake Co., Ltd., resolve to pay, less tax at current rate, the 6 per cent Dividend on the Preference Shares for the year ending 31st December, according to the amounts paid up on such shares. Write up the Preference Share Dividend Book.

24. The directors of the Auto Brake Co., Ltd., resolved to pay, free of tax, a Dividend of 10 per cent on the Ordinary Shares for the year ending 31st December, according to the amounts paid up thereon. Write up the Ordinary Share Dividend Book.

25. From the particulars recorded in the Auto Brake Company's Share Ledgers, Transfer Registers, etc., prepare the Company's Annual Return, and draw up a Balance Sheet to be rendered therewith.

26. The Ornis Aeroplane Co., Ltd., was registered with a Capital of £50,000, divided into 25,000 Ordinary Shares of £1 each, and 25,000 Preference Shares of £1 each. The Ordinary Shares were offered for subscription on 1st February, payable 2s. 6d. per share on application, 5s. per share on allotment, and the balance as and when required. Applications were received, and allotments made, as under—

			Applied for	Allotted
Feb.	2.	George Dudley, Printer, 16 Muswell Road, Bedford	2,000	1,000
„	3.	James Forecast, Stationer, 12 Grand Avenue, Lincoln	500	nil
„	4.	Alfred Greaves, Merchant, 65 Burgoyne Road, Derby	6,000	5,000
„	4.	John Hamlin, Corn Dealer, 27 Flask Street, Warwick	4,000	2,000
„	5.	Richard Johnson, Artist, 96 Holland Park Road, Hitchin	3,000	1,000
„	5.	Frederick Kutner, Grocer, 112 Evering Road, Bromley	6,000	5,000
„	6.	Thomas Lethaby, Baker, 72 Piccadilly, London, W.	500	nil
„	7.	Mabel Lansdown, Spinster, 104 Ellerton Road, Chatham	3,000	2,000
„	7.	Charles Marshall, Butcher, 27 Hewlett Street, Cardiff	3,000	2,000
„	8.	Robert Newman, Ship Broker, 74 Havelock Road, Newport	5,000	3,000
„	8.	Arthur Pearce, Schoolmaster, 68 Childebert Street, Bexley	3,000	2,000
„	8.	Ronald Stevens, Journalist, 174 High Street, Islington, London, N.	3,000	2,000

Allotments were made on 12th February in the order of application, the shares being numbered from 1 upwards. No allotments were made to Forecast and Lethaby, whose deposits were returned in full together with Letters of Regret, Nos. 1 and 2. The amounts due on allotment were duly received by 20th February. Write up the Applications and Allotments Book, and subsidiary Cash Book.

27. The Ornis Aeroplane Co., Ltd., offered on 1st February for public subscription 25,000 5 per cent Preference Shares of £1 each, payable 5s. per share on application, 7s. 6d. per share on allotment, and the balance as and when required. Applications were received, and allotments made, as follows—

			Applied for	Allotted
Feb.	3.	Henry Colley, Architect, 56 Derrington Street, Nottingham	3,000	2,000
„	3.	William Clarke, Surveyor, 127 Griffin Road, Appleby	2,000	1,000
„	3.	Norman Dowse, Cotton Merchant, 38 Grosvenor Street, Worcester	6,000	5,000
„	4.	Julius Drummond, Solicitor, 16 Birkbeck Road, Buckley	250	nil
„	4.	Evan Figgs, Banker, Barron's Court, Farnham	2,000	1,000
„	5.	Francis Grover, Mason, 316 Holden Road, Halifax	6,000	5,000
„	5.	Leslie Groote, Builder, 98 Union Street, Leicester	300	nil
„	6.	Eva Herrick, Spinster, 17 Hoopwick Street, York	3,000	2,000
„	6.	Frederick Hallett, Metal Worker, 30 Seymour Street, Truro	3,000	2,000
„	7.	Thomas James, Journalist, 139 The Grove, Ealing, London, W.	4,000	3,000
„	8.	Isaac Minns, Sculptor, 56 Elgin Avenue, Devonport	3,000	2,000
„	8.	Donald Palmer, Gum Merchant, 38 Gower Street, London, W.	3,000	2,000

Allotments were made in order of application on 12th February, the shares being numbered from 25,001 upwards. No allotment was made to Drummond and Groote, whose deposits were returned in full together with Letters of Regret, Nos. 3 and 4. The amounts payable on allotment were all received by 15th February. Write up the Applications and Allotments Book, and subsidiary Cash Book.

28. Referring to Exercises 26 and 27, write up the statutory Return of Allotments.

29. On 15th May, the directors of the Ornis Aeroplane Co., Ltd., made a first call of 5s. per share on the Ordinary Shares. The call was payable by 25th May, and the following amounts were received—

				£
May	17.	R. Stevens	2,000 Shares	1,250
„	18.	A. Pearce	2,000 „	500
„	19.	R. Newman	3,000 „	750
„	20.	C. Marshall	2,000 „	300
„	21.	M. Lansdown	2,000 „	500
„	22.	F. Kutner	5,000 „	1,250
„	23.	J. Hamlin	2,000 „	500
„	24.	A. Greaves	5,000 „	750
„	25.	G. Dudley	1,000 „	250

Stevens and Greaves were allowed till 25th June to pay the balance, subject to 5 per cent interest thereon, on which date the amounts (plus interest) were duly received. No money at all was received from R. Johnson, whose shares, after due notice, were forfeited on 30th June. Write up the Call Book and the subsidiary Cash Book.

30. On 15th May, the directors of the Ornis Aeroplane Co., Ltd., made a first call of 5s. per share on the Preference Shares. The call was payable by 25th May, and the following amounts were received—

					£
May	17.	D. Palmer	2,000	Shares	300
,,	17.	I. Minns	2,000	,,	500
,,	18.	T. James.	3,000	,,	750
,,	19.	F. Hallett	2,000	,,	500
,,	20.	E. Herrick	2,000	,,	500
,,	21.	F. Grover	5,000	,,	750
,,	22.	E. Figgs	1,000	,,	250
,,	23.	N. Dowse	5,000	,,	1,250
,,	24.	W. Clarke	1,000	,,	375
,,	25.	H. Colley	2,000	,,	500

Palmer and Grover were allowed till 25th June to pay the balance, subject to interest at 5 per cent, on which date the amounts due (plus interest) were duly received. Write up the Call Book and the subsidiary Cash Book.

31. The following transfers of Ordinary Shares were made, approved, and duly registered in the books of the Ornis Aeroplane Co., Ltd.—

July 10th, 1,000 shares (1,001–2,000) from A. Greaves to G. Dudley; transfer deed, No. 1.

August 15th, 500 shares (2,001–2,500) from A. Greaves to John Hamlin.

September 23rd, 1,000 shares (9,001–10,000) from F. Kutner to George Dudley.

September 29th, 1,000 shares (10,001–11,000) from F. Kutner to John Hamlin.

October 12th, 500 shares (18,001–18,500) from R. Newman to Philip Mence, Stock Broker, 16 Maida Vale, London, W.

November 15th, 500 shares (18,501–19,000) from R. Newman to Isaac Finshel, Merchant, 27 North Street, Exeter.

Write up the company's Register of Transfers.

32. The following transfers of Preference Shares were made, approved, and duly registered in the books of the Ornis Aeroplane Co., Ltd.—

July 9th, 500 shares (25,001–25,500) from Henry Colley to William Clarke.

25th, 1,000 shares (28,001–29,000) from Norman Dowse to Evan Figgs.

August 13th, 1,000 shares (34,001–35,000) from Francis Grover to William Clarke.

September 9th, 1,000 shares (43,001–44,000) from Thomas James to Evan Figgs.

October 20th, 500 shares (39,001–39,500) from Eva Herrick to Thomas Rugger, Journalist, 19 Lake Street, Finsbury Park, London, N.

November 15th, 500 shares (29,001–29,500) from Norman Dowse to Lionel Tomlin, Butcher, 15 Court Road, Penzance.

Write up the company's Register of Transfers.

33. From the particulars furnished in exercises Nos. 26, 29, 31, write up the Ornis Aeroplane Co.'s Ordinary Share Ledger.

34. From the particulars furnished in Exercises Nos. 27, 30, 32, write up the Ornis Aeroplane Co.'s Preference Share Ledger.

35. The Ornis Aeroplane Co., Ltd., having power by its Memorandum of Association to issue £15,000 6 per cent Debentures in bonds of £100 each, offered the same on 1st March for public subscription, payable 20 per cent on

application, 30 per cent on allotment, and the balance as and when required. Applications were received, and allotments made, as follows—

			Applied for	Allotted
Mar.	2.	Charles Marshall, Surveyor, 16 Faraday Street, Dalston, London, N. . .	25	20
„	2.	Gregory Norton, Solicitor, 24 Norman Road, Barnes, London, S.W. . .	5	nil
„	3.	Rufus Simmons, Baker, 7 Woodquest Avenue, Bedford	15	10
„	3.	Harold Medlar, Engineer, 92 Bridge Street, Poole	25	20
„	4.	Alexander Pope, Architect, 56 Finchley Road, Dorchester	25	20
„	4.	Horace Biedler, Surveyor, 27 Hamilton Gardens, Exeter	20	15
„	5.	Julia Penfold, Spinster, 32 Sidney Street, Bath	20	15
„	6.	Ernest Sims, Accountant, 17 The Parade, Taunton	5	nil
„	6.	Claude Rayner, Printer, 27 Barnsley Road, Oxford	25	20
„	7.	Martin Drayman, Banker, 17 Walm Lane, Somerset	15	10
„	8.	Peter Tilbrook, Commission Agent, 124 Pitlake Street, Yeovil.	20	15
„	8.	Archibald Vellacott, Leather Merchant, 324 Oxford Street, London, W. . .	10	5

Allotments were made on 12th March in order of application, the numbers of the debentures running from 001 onwards. No allotment was made to Norton or Sims, whose deposits were duly returned with Letters of Regret Nos. 5 and 6. The moneys payable on allotment were all received by 22nd March. Write up the Debenture Application and Allotments Book and subsidiary Cash Book.

36. On 1st June, the directors of the Ornis Aeroplane Co., Ltd., resolved to call up the remaining 50 per cent unpaid on the debentures. The call was payable by 15th June, and the following amounts were received—

					£
June	4.	A. Vellacott	5	Debentures	250
„	5.	P. Tilbrook	15	„	750
„	6.	M. Drayman	10	„	500
„	6.	C. Rayner	20	„	1,000
„	7.	Julia Penfold	15	„	750
„	8.	H. Biedler	15	„	750
„	9.	A. Pope	20	„	1,000
„	10.	H. Medlar	20	„	1,000
„	13.	R. Simmons	10	„	500
„	14.	C. Marshall	20	„	1,000

Write up the Debenture Call Book and subsidiary Cash Book.

37. The following transfers of Debentures were made, approved, and duly registered in the books of the Ornis Aeroplane Co., Ltd.—

May 15th, 10 Debentures (001–010) from C. Marshall to R. Simmons; transfer deed, No. 101.

June 20th, 10 Debentures (031–040) from H. Medlar to M. Drayman.

July 15th, 5 Debentures (051–055) from A. Pope to A. Vellacott.

July 27th, 5 Debentures (101–105) from C. Rayner to A. Vellacott.

August 18th, 5 Debentures (071–075) from H. Biedler to Edwin Hook, Solicitor, 27 Holland Park Avenue, Brixton, London, S.W.
September 23rd, 5 Debentures (086–090) from Julia Penfold to Jonas Kemsley, Surveyor, 90 Lawrence Road, Horsham.
Write up the Debenture Transfer Register.

38. From the particulars furnished in Exercises Nos. 35, 36, 37, write up the Ornis Aeroplane Co.'s Register of Debenture Holders.

39. From the particulars recorded in the Ornis Aeroplane Co.'s Register of Debenture Holders (Exercise 38), assuming there to be no further change, write up the Debenture Interest Book for the half-year ending 31st December.

40. The directors of the Ornis Aeroplane Co., Ltd., resolved to pay, less tax at current rate, the 5 per cent Dividend on the Preference Shares for the year ending 31st December, according to the amounts paid up on such shares. Write up the Preference Share Dividend Book.

41. The directors of the Ornis Aeroplane Co., Ltd., resolved to pay, less tax at current rate, a Dividend of 15 per cent on the Ordinary Shares for the year ending 31st December, according to the amounts paid up thereon. Write up the Ordinary Share Dividend Book.

42. From the particulars recorded in the Ornis Aeroplane Company's Share Ledgers, Transfer Registers, etc., prepare the Company's Annual Return and draw up a Balance Sheet to be rendered therewith.

43. The Aurium Mining Co., Ltd., was registered with a Capital of £50,000, consisting of 50,000 Ordinary Shares of £1 each. The objects of the company were *inter alia* to acquire certain rights and concessions from the vendors, Frank Minster and William Thorne. The consideration for the purchase was £10,000 in Cash (half to each vendor), and 20,000 in shares of £1 each allotted as fully paid (half to each vendor). The balance of the shares was offered for public subscription on 11th February, payable 2s. per share on application 3s. per share on allotment, and the remaining 15s. per share, as and when required, in calls not exceeding 5s. per share. Applications were received, and allotments made, as under—

			Applied for	Allotted
Feb.	12.	Frank C. Minster (vendor), Mining Engineer, 3 Revell Street, Hitchin .	—	10,000
,,	12.	William Thorne (vendor), Mining Engineer, 29 Thorpe Avenue, Southampton	—	10,000
,,	12.	Robert Phillips, Merchant, 27 Normal Street, Derby	4,000	4,000
,,	13.	Leslie H. Goode, Tea Broker, 27 Mincing Lane, London, E.C. . . .	2,500	2,500
,,	13.	Walter C. Best, Solicitor, 12 High Road, Luton	3,000	3,000
,,	14.	Samuel Butler, Surveyor, 56 Park Avenue, Buckingham . . .	500	500
,,	15.	Joseph T. Wington, Architect, 112 High Street, Brighton	1,500	1,500
,,	16.	Henry F. Prince, Mason, 62 Revelstoke Road, Birmingham . . .	500	500
,,	17.	George Buckley, Printer, 27 Philipville Road, Swansea	4,000	4,000

		Applied for	Allotted
Feb. 18.	Richard Lambe, Architect, 3 Luxville Gardens, Hove	50	nil
„ 19.	Philip S. Yates, Brewer, 91 Longley Street, Burton	5,000	5,000
„ 20.	Arthur O. Tetley, Journalist, 16 Lupus Street, Bradford	5,000	5,000

Allotments were made on 22nd February in order of application, the shares being numbered from 1 upwards. The necessary contract setting forth the consideration for the shares issued as fully paid to the vendors was duly registered. The deposit of Richard Lambe was returned in full, no allotment having been made to him.

On 28th February the amounts payable by the allottees were duly received.

On 28th April the directors made a first call of 5s. per share, payable by 10th May, and the following amounts were received—

			£
A. O. Tetley	5,000 Shares		1,250
P. S. Yates	5,000 „		1,250
G. Buckley.	4,000 „		1,000
H. F. Prince	500 „	(in full)	375
J. T. Wington	1,500 „		375
W. C. Best	3,000 „		750
L. H. Goode	2,500 „		625
R. Phillips	4,000 „		1,000

Further transactions took place, as follows—

May 25. Transfer registered: 1,000 shares (20,001–21,000) from R. Phillips to H. F. Prince.

„ 29. G. Buckley applied for 3,000 additional shares, which were duly allotted to him (Nos. 46,001–49,000), and paid 10s. per share in respect of same.

„ 30. Transfer registered: 500 shares (36,001–36,500) from P. S. Yates to L. H. Goode.

June 5. Resolution passed by the Board cancelling the shares held by S. Butler, who had failed to pay the First Call.

„ 25. Transfer registered: 2,000 shares (41,001–43,000) from A. O. Tetley to J. T. Wington.

July 10. Transfers registered—

1,000 shares (36,001–37,000) from P. S. Yates to L. H. Goode;
1,500 shares (37,001–38,500) from P. S. Yates to W. C. Best;
500 shares (22,001–22,500) from P. S. Yates to L. H. Goode.

You are required to write up—

(1) Application and Allotments Book and subsidiary Cash Book.
(2) Statutory Return of Allotments.
(3) Call Book and subsidiary Cash Book.
(4) Register of Transfers.
(5) Share Ledger.
(6) Annual Return and a Balance Sheet to be rendered therewith.

44. The British Timber Syndicate, Ltd., was registered with a Capital of £200,000, divided into 10,000 Ordinary Shares of £10 each, and 10,000 6 per cent cumulative Preference Shares of £10 each. The objects of the syndicate were *inter alia* to purchase as a going concern the business of Messrs. Poole & Co. The purchase price was agreed at £110,000, payable as to £10,000 in Cash, and as to £100,000 in 10,000 Ordinary Shares of £10 each allotted as fully paid.

The whole of the Preference Shares were offered for public subscription on 15th February, payable £1 10s. on application, £1 10s. on allotment, £3 on

1st April, £2 on 1st June, and £2 on 1st August. Applications and deposits were received as follows—

			No. of Shares	Amount of Deposit £
Feb.	16.	Fred Smith, Surveyor, 12 Brooke Street, Lyndhurst	1,200	1,800
„	17.	Thomas E. Finch, Journalist, 64 Fleet Street, London, E.C.	600	900
„	18.	Philip Strong, Architect, 17 Thornville Road, Buxton	1,000	1,500
„	18.	Grace M. Carter, Spinster, 2 Boulders Lane, Cleethorpes	600	900
„	18.	Reginald Turner, Merchant, 56 Longworth Road, Thurston	1,200	1,800
„	19.	Arthur Brown, Broker, 95 St. Peter's Road, Somerset	1,000	1,500
„	19.	Norman Trelwyn, Mason, 110 Lime Street, Liverpool	1,500	2,250
„	20.	Leslie Philpott, Butcher, 14 Larneway Avenue, Buxton	600	900
„	20.	Harold French, Designer, 106 Corncrake Lane, Leicester	1,200	1,800
„	21.	Alfred Smith, Banker, 2 Grange Mansions, Pudworth	2,500	3,750

On 23rd February the directors made the following allotments—

F. Smith . .	1,000 Preference Shares, numbered			1	to	1,000
T. Finch . .	500	„	„	„	1,001	to	1,500
P. Strong . .	1,000	„	„	„	1,501	to	2,500
G. M. Carter .	500	„	„	„	2,501	to	3,000
R. Turner . .	1,000	„	„	„	3,001	to	4,000
A. Brown . .	1,000	„	„	„	4,001	to	5,000
N. Trelwyn .	1,500	„	„	„	5,001	to	6,500
L. Philpott. .	500	„	„	„	6,501	to	7,000
H. French . .	1,000	„	„	„	7,001	to	8,000
A. Smith . .	2,000	„	„	„	8,001	to	10,000
Poole & Co. (Vendors) .	10,000 Ordinary	„		„	10,001	to	20,000

On 1st March the various sums payable by the allottees were duly received—
The following further transactions took place—

Mar. 10. Transfer registered: 1,000 Ordinary Shares (10,001–11,000) from Poole & Co. to Francis Laurel, Mason, 16 Penzance Road, Falmouth.

„ 22. Transfer registered: 1,000 Ordinary Shares (11,001–12,000) from Poole & Co. to Bert Tomlin, Grocer, 27 Elgin Avenue, Somerset.

„ 25. Transfer registered: 100 Preference Shares (1–100) from F. Smith to T. Finch.

April 1. Sums due from shareholders on account of First Call duly received.

„ 20. Transfer registered: 500 Preference Shares (6,501–7,000) from L. Philpott to H. French.

May 16. Transfer registered: 1,000 Preference Shares (8,001–9,000) from A. Smith to T. Finch.

„ 24. Transfer registered: 1,000 Ordinary Shares (12,001–13,000) from Poole & Co. to Leslie Charlton, Banker, 3 Lothbury Mansions, Poole.

June 1. The sums due from Shareholders in respect of Second Call duly received.

June 23. Transfer registered: 500 Ordinary Shares (13,001–13,500) from Poole & Co. to Charles Dalton, Builder, 64 Roseberry Avenue, Paignton.

July 16. Transfer registered: 500 Preference Shares (5,001–5,500) from N. Trelwyn to R. Turner.

Aug. 1. The sums due from shareholders in respect of Final Call duly received, except £1,000 from A. Brown, on which he agreed to pay interest.

„ 20. Transfer registered: 500 Preference Shares (1,501–2,000) from P. Strong to H. French.

Sept. 19. Transfer registered: 500 Ordinary Shares (13,501–14,000) from Poole & Co. to Robert Soames, Gentleman, 17 Lionel Gardens, Bromley.

You are required to write up—

(1) Application and Allotment Books and subsidiary Cash Books.
(2) Statutory Return of Allotments.
(3) Call Books and subsidiary Cash Books.
(4) Transfer Registers.
(5) Share Ledgers (Ordinary and Preference).
(6) Annual Return and a Balance Sheet to be rendered therewith.

45. A shareholder, owning 50 shares of £1 each, numbered 8–57, acquired on 1st January, under Transfer No. 6, appears on the Share Ledger (duly indexed) as—

John Arthur Hoskins,
The Limes,
Didport.

He having died, sketch the general form of his Share Account, and show how you would register Probate sent you on 1st March, in favour of

Charles Winthrop,
The Lodge,
Gorse Hill.

State also what you would do as regards the old Share Certificate. (*Chartered Accountants.*)

46. The Shareholders' Trust, Limited (directors, John Smythe, Tom Browne, and Richard Bruce-Jones; secretary, A. Scribe; and auditors, Critic & Co.), was entitled to commence business on 1st April, 19... 80,000 shares of 10s. each had been applied for and duly allotted, and 2s. 6d. per share payable on application, with 2s. 6d. per share payable on allotment, had been received by the Company. An additional 10,000 shares were, under the purchase agreement, allotted to the vendors as fully-paid. The following payments had been made prior to the date of the report, viz.—

	£
On account of Preliminary Expenses	2,500
Investments	10,000
Directors' Fees, etc.	250
Printing and Stationery, Postages and Sundries	45

The sum of £5,000 had been placed on deposit at the bank.

The Preliminary Expenses are estimated in the prospectus at £3,500.

Prepare the Statutory Report (with Auditors' certificate), and state within what period the statutory meeting of the Company should be held, in order to comply with Section 113 of the Companies Act, 1929. (*Chartered Accountants.*)

REVISION EXERCISE XIV

1. Is it advantageous or not to convert a business into a limited liability company? Give reasons for your answer. (*Lancashire and Cheshire Union.*)

2. A Retail Trader has 4 shops (A, B, C, and D). His total figures for the year are Sales A £4,000, B £3,600, C £3,800, D £2,000. The Stock at the beginning of the year is £5,500, and at the end £5,300. The Purchases are £9,800. The Expenses not kept separately for each shop are Printing, Stationery, and Advertising £48, Trade Expenses £210.

The Rents and Rates are A £150, B £110, C £180, D £115, and the Wages are A £218, B £194, C £234, D £180. On the basis that each shop earns the same rate of gross profit, prepare a statement showing the net profit at each shop, dividing the expenses in proportion to the business done. (*West Riding of Yorkshire.*)

3. A friend desires you to advise him as to whether he should invest £1,000 (which he has free) in—

(*a*) Ordinary Shares of a Company which has paid 8 per cent per annum during the last three years; or

(*b*) In 6 per cent Cumulative Preference Shares of the same Company; or

(*c*) In 4 per cent Debentures of the same Company.

How would you advise him? (*Lancashire and Cheshire Union.*)

4. A sold goods to the value of £600 to B on 2nd January. On 2nd February B sent A a bill, dated that day, for £600 at 4 months. On 5th March, A discounted the bill with his bankers at 6 per cent per annum. On 28th May, B wrote to A and informed him that he was unable to meet the bill, and requested A to retire it, which A did. At the same time, B sent A a cheque for £200 (which was duly met), and a bill at 3 months dated 2nd June for £400 and interest at 5 per cent per annum. Make the entries in A's books, recording the above transactions, opening and posting in the Ledger the accounts which are affected. (*Chartered Accountants.*)

5. A firm of three partners, G, H, and J, who were interested in the profits or losses of their general business in the proportions of 40 per cent, 30 per cent, and 30 per cent respectively, entered, at the instance of H, into two outside ventures on the understanding that, if a profit resulted in either case, H's proportion thereof should exceed his usual proportion by 10 per cent, and if, on the other hand, a loss resulted from either transaction, H's proportion thereof should exceed his usual proportion by 15 per cent. Venture No. 1 yielded a profit of £1,000. Venture No. 2 resulted in a loss of £500. The ordinary business showed a profit of £2,000. Divide up the results in the manner agreed, and show their effect in a personal account with each partner. (*Chartered Accountants.*)

6. The entire undertaking of an old Company was purchased by a new limited company for the lump sum of £100,000 as on 1st July.

The old company's Balance Sheet on 30th June stood thus—

LIABILITIES	£	ASSETS	£
Subscribed Capital	110,000	Freeholds, cost	20,000
Creditors	3,050	Buildings, cost	15,000
Reserve for contingencies, extra Depreciation, etc.	1,950	Plant, after normal Depreciation	17,500
		Works in progress, per Cost Books	22,500
		Stocks, cost	20,000
		Book Debts, *less* Reserve	14,250
		Cash at Bank	5,735
		Cash in hand	15
	£115,000		£115,000

How would you propose to deal with these figures in opening the books of the new company, no valuations of any kind having been made? (*Chartered Accountants.*)

7. What form of Ledger would you suggest for a business in which the accounts carry interest on current transactions, and what simple method would you adopt for calculating the interest? (*Chartered Accountants.*)

8. A company issues £100,000 Debenture Stock at 90 per cent, and pays 2 per cent for underwriting it. How should the transaction show in the company's books? (*Chartered Accountants.*)

9. Open the books, and prepare a Trial Balance therefrom, of a limited company formed on 1st January, with a Capital of 50,000 shares of £1 each and 1,000 Debentures of £50 each, both fully subscribed and paid up in Cash on that date. The Company took over the business of a private firm, whose assets, purchased and paid for on 31st January, were as follows—

	£
Stock-in-trade	50,000
Book Debts	40,000
Cash at Bankers	5,000
Fixtures, Furniture, etc.	2,000
Leasehold Premises	3,000
Goodwill	12,000

As part of the consideration for the purchase of the assets, the Company assumed the liabilities amounting to £12,000. (*Chartered Accountants.*)

10. The books of a merchant include two Bought Ledgers and three Sales Ledgers. You are required to arrange that each of these Ledgers shall balance independently, and also that the Cash Book, disclosing the position of the Bank Account, shall not be open to the ledger clerks. Detail the method you would adopt. (*Chartered Accountants.*)

11. L. Brier and C. Oke entered into partnership on 1st January, 1905, L. Brier bringing in cash £8,000, C. Oke bringing in nothing. The partnership agreement stipulated that Brier was to receive 5 per cent interest on his capital before dividing any profit, which was divisible three-fifths and two-fifths respectively. On 31st December, 1909, they agreed upon a dissolution. A Balance Sheet was prepared at 31st December, 1909, and stood as follows—

LIABILITIES		£	ASSETS	£
L. Brier, Capital A/c.		8,000	Book Debts	14,000
J. Harrison, Loan Account		4,000	Stock-in-trade	5,700
Sundry Creditors		4,200	Machinery, etc.	2,400
Balance of Profit & Loss Account	£10,000		Drawings Account—	
Profit for the year 1909	2,500		L. Brier	5,350
		12,500	C. Oke	1,250
		£28,700		£28,700

L. Brier has not been credited with any interest since the commencement of the partnership. No interest on drawings or undistributed profits is to be taken into account. The Book Debts realized £13,600, the Stock-in-trade £4,900, and the Machinery £2,800. An amount of £500 was also received for

Goodwill, which had not appeared in the partnership books. Write up the necessary accounts to give effect to the above statements, assuming that all liabilities are discharged and that the costs of realization, amounting to £300, are also paid by cash. Show the closing of the partners' Capital Accounts. The interest on L. Brier's capital is to be reckoned for each year on the original figure of £8,000, and no interest on interest need be taken into account. (*Lancashire and Cheshire Union.*)

12. The undermentioned errors were discovered in the books of J. Johnson & Co., affecting the year ended 30th June.

(1) April 20. A cheque received from W. Brown for £11 was posted to his credit as 11s.

(2) May 31. A Sale of £26 10s. 0d. was credited correctly, but debited to the Customer's Account as £20 6s. 10d.

(3) June 29. Goods were returned by R. Carr of the invoice value of £27 10s. 0d., and were taken into Stock at £25, but the returns were not entered in the books until the following month.

(4) June 29. The acceptance of Badart Frères to Johnson & Co.'s draft for £220 payable in Paris, and which had been discounted, was dishonoured. The acceptance was worthless, and the bankers debited Johnson & Co.'s account on the 1st July.

Show how the adjusting entries should be made in J. Johnson & Co.'s books at the 30th June. (*Chartered Accountants.*)

13. What, in your opinion, are the advantages and disadvantages of Card Ledgers? Lay down a short set of rules for the control of the cards and the guidance of the book-keeper. (*Chartered Accountants.*)

14. From the following statement make out Trading Account, Profit and Loss Account, and Balance Sheet for the Motor Manufacturing Company, Limited, for the year ending 31st December.

Write off the whole of Preliminary Expenses and depreciate Plant and Machinery, Office Furniture, Patterns and Patents at a uniform rate of $7\frac{1}{2}$ per cent per annum.

Add £2,000 to the Sinking Fund for redemption of Debentures and leave the Reserve for Bad and Doubtful Debts at 5 per cent on Sundry Debtors. Stock on hand at the above date was taken at £10,087.

	£		£
Nominal Capital 80,000 Shares of £1 each	80,000	Cash at Bank on deposit	12,000
Subscribed Capital 60,000 Shares of £1 each fully called	60,000	Balance to Credit of Profit and Loss (1st Jan.)	890
Calls in Arrear	1,000	Bills Payable	15,500
Freehold Premises	18,000	Sales	122,000
Plant and Machinery	20,000	Purchases	62,100
Interim Dividend paid	2,000	Reserve for Bad and Doubtful Debts	2,250
Debentures, 5%	20,000	Preliminary Expenses	400
Stock (1st January)	18,750	Sinking Fund for redemption of Debentures	8,000
Office Furniture	625	N.B. This is represented by Investments to an equal amount, and there is one year's interest on them at $3\frac{1}{2}$% per annum due, but unpaid, at the date of making up these accounts.	
Patterns	6,250		
Patents	3,750		
Goodwill	12,000		
Sundry Debtors	37,500		
,, Creditors	16,800		
Cash in hand	150		
Cash at Bank Current Account	3,000		

	£		£
Manufacturing Wages .	30,000	General Expenses . .	475
Repairs and Renewals .	1,300	Discounts Allowed .	2,120
Coal	2,225	,, Received .	1,780
Gas and Water . .	175	Directors' Fees . .	525
Rates, Taxes, and Insurance	1,250	Royalties paid . .	450
Office Salaries . .	1,000	Interest on Bank Deposit	300
Travelling Expenses .	1,325	Bad Debts . . .	150
		Debenture Interest .	1,000

(*National Union of Teachers.*)

CHAPTER XV

BONUS SHARES, REDUCTION OF CAPITAL, REDEMPTION OF DEBENTURES REDEMPTION OF REDEEMABLE PREFERENCE SHARES

WHEN a company has accumulated large reserves out of profits, these reserves, or a portion of them, are often capitalized by the issue of free or bonus shares, so that the shareholders may derive some benefit from such reserves. As the result of successful trading the market price of the shares will probably be at a premium, and such shares are sometimes issued at a premium in order that the smallest possible amount may be capitalized; a largely augmented capital might reduce the rate of dividend, unless profits continued to increase. Where the capital of a company is only partly called up, such bonus is often applied towards making the shares fully paid.

(1) Bonus Shares issued at par

Example. A company with a paid-up capital of £200,000 in £1 shares, having accumulated a Reserve of £70,000, resolves to capitalize £50,000 of it by issuing to the shareholders 50,000 bonus shares of £1 each fully paid, each shareholder to receive one bonus share for every four shares held in the company. Show the entries required to record the transaction.

JOURNAL

		Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
	Reserve Account	50,000	–	–			
	To Bonus Account				50,000	–	–
	Bonus payable out of Reserve in fully-paid shares as per Resolution dated............						
	Bonus Account	50,000	–	–			
	To Share Capital Account . . .				50,000	–	–
	Issue of 50,000 bonus shares of £1 each in payment of bonus, at the rate of 1 bonus share for every 4 shares held in the company.						

(2) Bonus Shares issued at a premium

Example. A company with a paid-up capital of £120,000 in £1 shares decide to distribute a bonus, equal to 25 per cent of its

capital. The Reserve Fund was £50,000; the market value of shares is £3. It is proposed to issue the shares at a premium of £2 per share, and to distribute them to shareholders as to one fully-paid share for every twelve shares held. Prepare the necessary journal entries for putting into effect the issue of the bonus shares on the terms stated.

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
	Bonus Account	30,000	–	–			
	To Share Capital Account . . .				10,000	–	–
	,, Share Premium Account . .				20,000	–	–
	Issue of 10,000 fully-paid shares, at a premium of £2 per share; distributed as to 1 share for every 12 held in the company.						

(3) Bonus applied to making Shares fully paid

Example. A company with a nominal and issued capital of £200,000 in £1 shares, 15s. per share paid, declares a bonus out of the Reserve Fund, at the rate of 33⅓ per cent on the paid-up capital, with the object of making the shares fully paid. Show the entries necessary to record the transaction.

JOURNAL *Dr.* *Cr.*

		Dr. £	s.	d.	Cr. £	s.	d.
	Final Call Account	50,000	–	–			
	To Share Capital Account . . .				50,000	–	–
	Call of 5s. per share on 200,000 shares, as per resolution dated....................................						
	Reserve Fund Account	50,000	–	–			
	To Bonus Account				50,000	–	–
	Bonus of 33⅓% on £150,000 paid-up Capital, payable out of the Reserve Fund, as per resolution dated..............................						
	Bonus Account	50,000	–	–			
	To Final Call Account				50,000	–	–
	Application of bonus to payment of Final Call, as per resolution dated......................						

REDUCTION OF CAPITAL

Provisions of the Companies Act. By Sections 55 and 56 of the Companies Act, 1929, it is enacted as follows—

Subject to confirmation by the Court, a company limited by shares,........ ....if so authorized by its Articles, may by special resolution reduce its share capital in any way, and in particular (without prejudice to the generality of the foregoing power) may—

(*a*) Extinguish or reduce the liability on any of its shares in respect of share capital not paid up; or

(*b*) Either with or without extinguishing or reducing liability on any of its shares, cancel any paid-up share capital which is lost or unrepresented by available assets; or

(*c*) Either with or without extinguishing or reducing liability on any of its shares, pay off any paid-up share capital which is in excess of the wants of the company,

and may, if and so far as is necessary, alter its memorandum by reducing the amount of its share capital and of its shares accordingly. (Sect. 55.)

Where a company has passed a resolution for reducing share capital, it may apply by petition to the Court for an order confirming the reduction. (Sect. 56.)

The Court, however, will first require the debts of objecting creditors to be discharged or secured. The order of the Court must also be registered before it takes effect.

Limited and Reduced. When the Court has made an order confirming the reduction—which may include such terms and conditions as it may think fit—it may, by Section 57(2), (*a*) if for any special reason it thinks proper so to do, make an order directing that the company shall, during such period, commencing on or at any time after the date of the order, as specified in the order, add to its name as the last words thereof the words "and reduced"; and (*b*) make an order requiring the company to publish, as the Court directs, the reasons for reduction . . . .

Meaning of Reduction of Capital. Reduction of capital means a diminution in the nominal amount of the share capital of a company; also, a reduction in the paid-up capital of a company means a reduction of capital.

Circumstances leading to a Reduction of Capital. A company might require to reduce its capital in the following circumstances—

(*a*) If there were an accumulation of trading losses representing the result of several years of adverse fortune in the prosecution of its business;

(*b*) If there were capital losses of an extensive nature requiring drastic revaluation of the assets of the company;

(*c*) If, being over-capitalized, there is not the probability of revenue to warrant the declaration of dividends.

(*d*) If certain of its assets having been converted into cash, there seemed no likelihood of that cash ever being required for the business.

Methods of Effecting the Reduction of Capital. There are several ways by which a company may give effect to the reduction of its capital. Of the methods illustrated, the most usual form of reduction of capital is that which arises out of the paid-up capital having been lost, or the capital being unrepresented by available assets. (See Example 2.)

(1) Writing off Losses

Example. A limited company, having sustained heavy losses obtained the sanction of the Court to reduce its capital from 100,000 shares of £1 each, fully paid, to 100,000 shares of 10s. each, fully paid. Make the necessary journal entry to effect this change of the company's capital, and state how the Share Ledger and Certificates will be adjusted.

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		Dr. £	s.	d.	Cr. £	s.	d.
	Share Capital Account	50,000	–	–			
	To Profit and Loss Account . .				50,000	–	–
	Reduction of 100,000 shares of £1 each, fully-paid, to 100,000 shares of 10s. each, fully paid, as per Order of the Court dated....................................						

It is of the utmost importance that the carrying into effect of a "reduction" does not create a further liability on the shareholders as regards their holdings. For instance, if an attempt be made to reduce the paid-up capital, say, from 10s. paid-up to 5s. paid-up upon the individual shares—without reducing the nominal amount of the share—the company would not be acting according to the intention of the Act, which is to limit the liability of the shares to the amount for which they were issued, and the arrangement indicated above would defeat that object.

In the Share Ledger, each page will be impressed with a rubber stamp referring to the resolution and its effect. The Share Certificates will either be dealt with in a similar manner or else new ones will be issued to replace them.

(2) Extinguishing Losses and Writing down Assets

(This example deals with the method more generally the subject of the reduction of a company's capital.)

Example. On page 578 is the Balance Sheet of the Thetis Co., Ltd., as at 31 December, 19 . .

Capital and Liabilities		£	*Property and Assets*	£
Nominal Capital—			Freehold Land and Buildings	25,000
120,000 Ord. Shares of £1 .	£120,000		Machinery and Plant . .	55,420
120,000 Pref. Shares of £1 .	120,000		Patents	67,000
	£240,000		Stock	8,250
Issued Capital—			Sundry Debtors . .	4,738
100,000 Ord. Shares of £1 each		100,000	Preliminary Expenses .	5,000
80,000 Pref. Shares of £1 each . . .		80,000	Cash in hand . . .	60
Bank Overdraft . .		4,000	Profit and Loss Account—balance at debit . .	30,532
Sundry Creditors . .		12,000		
		£196,000		£196,000

Resolutions were passed, (1) That the £1 Preference and Ordinary Shares be reduced to the same number of fully-paid shares at 15s. and 10s. 6d. for the respective classes of shares; (2) That the sum thus rendered available be applied as follows: (*a*) The balances to the debit of Profit and Loss and Preliminary Expenses to be written off; (*b*) the Machinery and Plant to be reduced to £40,000; (*c*) £1,000 to be written off the Stock; (*d*) the balance to be utilized to reduce the Patents Account. Make the necessary Journal entries, and draw up the new Balance Sheet.

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		Dr. £	s.	d.	*Cr.* £	s.	d.
	Preference Share Capital Account . .	20,000	–	–			
	To Capital Reduction Account . .				20,000	–	–
	80,000 Preference Shares of £1 each, fully paid, reduced to 80,000 shares of 15s. each, fully paid, as per resolution dated..						
	Ordinary Share Capital Account . .	47,500	–	–			
	To Capital Reduction Account . .				47,500	–	–
	100,000 shares of £1 each, fully paid, reduced to 100,000 shares of 10s. 6d. each, fully paid, as per resolution dated						
	Capital Reduction Account . . .	67,500	–	–			
	To Profit and Loss Account . .				30,532	–	–
	,, Preliminary Expenses Account .				5,000	–	–
	,, Machinery and Plant Account .				15,420	–	–
	,, Stock Account				1,000	–	–
	,, Patents Account				15,548	–	–
	Amounts written off, as per resolution dated..						

LEDGER

Dr. CAPITAL REDUCTION ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Profit and Loss .	30,532	–	–	19— Dec. 31	By Preference Share Capital A/c .	20,000	–	–
	,, Preliminary Expenses . .	5,000	–	–		,, Ordinary Share Capital A/c .	47,500	–	–
	,, Machinery and Plant . .	15,420	–	–					
	,, Stock . .	1,000	–	–					
	,, Patents . .	15,548	–	–					
		£67,500	–	–			£67,500	–	–

Dr. PREFERENCE SHARE CAPITAL ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Capital Reduction A/c .	20,000	–	–	19— Dec. 31	By Balance . .	80,000	–	–
	,, Balance c/d .	60,000	–	–					
		£80,000	–	–			£80,000	–	–
					Dec. 31	By Balance b/d .	60,000	–	–

Dr. ORDINARY SHARE CAPITAL ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Capital Reduction A/c .	47,500	–	–	19— Dec. 31	By Balance . .	100,000	–	–
	,, Balance c/d .	52,500	–	–					
		100,000	–	–			£100,000	–	–
					Dec. 31	By Balance b/d .	52,500	–	–

BALANCE SHEET OF THE THETIS COMPANY, LIMITED AND REDUCED

Capital and Liabilities		£	s.	d.	*Property and Assets*	£	s.	d.
Nominal Capital—					Freehold Buildings . . .	25,000	–	–
120,000 Ord. Shares of 10s. 6d. .	£63,000				Plant and Machinery . .	40,000	–	–
120,000 Pref. Shares of 15s. . .	90,000				Patents	51,452	–	–
	£153,000				Stock	7,250	–	–
Issued Capital—					Sundry Debtors . . .	4,738	–	–
100,000 Ord. Shares of 10s. 6d.		52,500	–	–	Cash in hand	60	–	–
80,000 Pref. Shares of 15s. .		60,000	–	–				
Bank Overdraft . . .		4,000	–	–				
Sundry Creditors . . .		12,000	–	–				
		£128,500	–	–		£128,500	–	–

A reduction of capital may also be effected by a company in the following circumstances—

(*a*) Forfeiture of shares for non-payment of calls;

(*b*) Surrender of shares by a member in circumstances which entitle the company to forfeit his shares for non-payment of calls.

(*c*) Cancellation of unissued shares.

REDEMPTION OF DEBENTURES

Debentures are debts due by a company for money borrowed, and are redeemable according to the contract therefor as contained in the "debenture." Debentures may be redeemable as follows—

1. By Drawings.
2. By repayment on demand.
3. By repayment at a fixed future date.

Again, debentures may also be redeemed by purchase in the open market; also, there may be a clause inserted in the "debenture" giving the company the option of redeeming its debentures by (*a*) drawings at par, or (*b*) in the open market, if the current price is below par, thereby securing to the company the power to redeem at the most advantageous terms.

There are three ways by which a company provides for the repayment of its debentures, and they are as follows—

1. Out of Profits.
2. Out of Capital.
3. By means of a Sinking Fund.

Before proceeding to give the examples of the redemption of debentures, it must be emphasized that companies are now empowered, under Section 75 of the Companies Act, 1929, to re-issue redeemable debentures, but that the balance sheet of the company must state which debentures can be so re-issued.

(1) Out of Profits

Example 1. A limited company has a balance of £6,300 at the credit of its Profit and Loss Account. Instead of declaring a dividend, it is resolved to utilize the profits to repay its £6,000 debentures now redeemable at a premium of 5 per cent. Make the necessary entries in the Journal and Cash Book.

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		Dr. £	s.	d.	Cr. £	s.	d.
	Profit and Loss Account . . .	6,300	–	–			
	To Appropriation Account . . .				6,300	–	–
	Transfer of balance.						
	Appropriation Account	300	–	–			
	To Premium on Repayment of Debentures				300	–	–
	Premium on repayment now provided.						
	Debentures Account	6,000	–	–			
	Premium on Repayment of Debentures .	300	–	–			
	To Debenture Holders Account . .				6,300	–	–
	Transfer of balances.						
	Appropriation Account	6,000	–	–			
	To General Reserve Account . .				6,000	–	–
	Transfer of amount of profits equal to Debentures repaid.						

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
				By Debenture Holders . .	6,300	–	–

Example 2. A limited company has power under its Articles of Association to apply its profits in the purchase of its Debenture Stock in the open market and to cancel same. The amount standing to the credit of Profit and Loss Account is £8,000, and to the credit of Debenture Stock Account, £40,000. The company's bank balance is £20,000. The directors decide to expend £8,000 in purchasing and cancelling further Debenture Stock, the market price of which, inclusive of all charges, is 92 per cent. Show the Ledger accounts affected.

Dr. CASH BOOK *Cr.*

	£	s.	d.		£	s.	d.
To Balance . .	20,000	–	–	By Debenture Stock—£8,695 13s. @ 92% .	8,000	–	–

Dr. DEBENTURE STOCK ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Cash—£8,695 13s. @ 92%	8,000	–	–	By Balance . .	40,000	–	–
„ Transfer to General Reserve A/c (profit on purchase) . .	695	13	–				
„ Balance c/d . .	31,304	7	–				
	£40,000	–	–		£40,000	–	–
				By Balance b/d . .	31,304	7	–

Dr. APPROPRIATION OF PROFIT ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Transfer to General Reserve A/c . .	8,000	–	–	By Profit and Loss A/c .	8,000	–	–

Dr. CAPITAL RESERVE ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
				By Appropriation A/c .	8,000	–	–
				„ Debenture Stock A/c	695	13	–
					8,695	13	–

The cash having, in each of the two examples, been paid away on account of Debentures, it is not available to pay the profits by way of dividend, but the amount would be available for dividend if the company was in funds later, or for a bonus distribution in shares.

(2) Out of Capital

Example. A limited company issued £15,000 Debentures at a discount of 5 per cent, repayable *at par* by annual drawings of £3,000. Make the necessary entries in the company's books for the first year.

Dr. CASH BOOK *Cr.*

		£	s.	d.			£	s.	d.
					Year 1	By Debentures Redeemed A/c .	3,000	-	-

LEDGER

Dr. DEBENTURES ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
Year 1	To Transfer from Debentures Redeemed A/c	3,000	-	-	Year 1	By Cash . . .	14,250	-	-
	„ Balance c/d . .	12,000	-	-		„ Discount[1] . .	750	-	-
		£15,000	-	-			£15,000	-	-
					2	By Balance b/d . .	12,000	-	-

[1] The Debenture Discount Account is not shown, because it will have been gradually written off over the intervening years; only a final portion being transferred in the current year to Profit and Loss.

Dr. DEBENTURES REDEEMED ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
Year 1	To Cash .	3,000	-	-	Year 1	By Transfer to Debentures A/c . .	3,000	-	-

(3) By means of a Sinking Fund

Example. A limited company borrowed £6,000 Debentures at par, repayable in 6 years at a premium of 5 per cent. It decided to provide for redemption by means of a Sinking Fund at 4 per cent compound interest. Show subsidiary book entries and the Ledger Accounts affected, and explain the procedure at the end of the period.

The annual instalment required to produce £6,300 in 6 years at 4 per cent is (Table B, page 656) £6,300 × ·150761 = £949·794 = £949 15s. 11d.

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		Dr. £	s.	d.	Cr. £	s.	d.
Year 1	Appropriation A/c.	949	15	11			
	To Debenture Redemption Fund A/c .				949	15	11
	Annual Sinking Fund instalment.						

and so on for subsequent years.

Dr. CASH BOOK Cr.

Year		£	s.	d.	Year		£	s.	d.
2	To Debenture Redemption Fund A/c (interest on investments) . .	37	19	10	1	By Debenture Redemption Fund Investment A/c . .	949	15	11
					2	,, Debenture Redemption Fund Investment A/c (instalment plus interest)	987	15	9

and similar entries for succeeding years.

LEDGER

Dr. DEBENTURE REDEMPTION FUND ACCOUNT Cr.

Year		£	s.	d.	Year		£	s.	d.
1	To Amount c/d . .	949	15	11	1	By Appropriation A/c .	949	15	11
2	To Amount c/d . .	1,937	11	8	2	By Amount b/d . .	949	15	11
						,, Cash (Interest, 4%)	37	19	10
						,, Appropriation A/c .	949	15	11
		£1,937	11	8			£1,937	11	8
3	To Amount c/d . .	2,964	17	8	3	By Amount b/d . .	1,937	11	8
						,, Cash (Interest) .	77	10	1
						,, Appropriation A/c .	949	15	11
		£2,964	17	8			£2,964	17	8
4	To Amount c/d . .	4,033	5	6	4	By Amount b/d . .	2,964	17	8
						,, Cash (Interest) .	118	11	11
						,, Appropriation A/c .	949	15	11
		£4,033	5	6			£4,033	5	6
5	To Amount c/d . .	5,144	8	–	5	By Amount b/d . .	4,033	5	6
						,, Cash (Interest) .	161	6	7
						,, Appropriation A/c .	949	15	11
		£5,144	8	–			£5,144	8	–
6	To Transfer to Debentures A/c (Premium on Repayment) .	300	–	–	6	By Amount b/d . .	5,144	8	–
	,, Transfer to General Reserve A/c .	6,000	–	–		Cash (Interest) .	205	15	6
						,, Appropriation A/c (Adjustment of 7d.) . . .	949	16	6
		£6,300	–	–			£6,300	–	–

Dr. DEBENTURE REDEMPTION FUND INVESTMENT ACCOUNT[1] *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash . . .	949	15	11	1	By Amount c/d . .	949	15	11
2	To Amount b/d . .	949	15	11	2	By Amount c/d . .	1,937	11	8
	,, Cash (Instalment plus Interest) .	987	15	9					
		£1,937	11	8			£1,937	11	8
3	To Amount b/d . .	1,937	11	8	3	By Amount c/d . .	2,964	17	8
	,, Cash . . .	1,027	6	-					
		£2,964	17	8			£2,964	17	8
4	To Amount b/d . .	2,964	17	8	4	By Amount c/d . .	4,033	5	6
	,, Cash . . .	1,068	7	10					
		£4,033	5	6			£4,033	5	6
5	To Amount b/d . .	4,033	5	6	5	By Amount c/d . .	5,144	8	-
	,, Cash . . .	1,111	2	6					
		£5,144	8	-			£5,144	8	-
6	To Amount b/d . .	5,144	8	-	6	By Cash . . .	6,300	-	-
	,, Cash . . .	1,155	12	-					
		£6,300	-	-			£6,300	-	-

[1] This might naturally be in *several* investments instead of in *one* as it is here stated.

At the end of the period the procedure will be as follows—

1. The Investments will be realized, and the proceeds debited to Cash and credited to the Investment Account, thus closing it.

2. Of the accumulated profits as per the Debenture Redemption Fund Account, £300 (Premium on Repayment) will be transferred to the credit of the Debentures Account; and £6,000 (Nominal value of the Debentures repaid) will be transferred to the credit of the General Reserve Account, and will be available as profit, though, of course, not in cash.

3. The Debentures will be paid off out of the proceeds of the Investments, Cash being credited and the Debentures Account debited. The latter account will thus be closed.

QUESTIONS ON CHAPTER XV

1. Explain briefly the treatment of bonus shares?
2. In what ways may capital be reduced in a limited company?
3. In what different ways may Debentures be redeemed?
4. Explain briefly the procedure at the end of the period when Debentures are redeemed by means of a Sinking Fund.

EXERCISE XV

1. On account of heavy losses the Directors of a Limited Company obtain power to reduce its capital from 75,000 shares of £1 each, fully paid, to 75,000 shares of 15s. each, fully paid. Prepare the necessary Journal entry to give effect to this charge of the company's capital.

2. On page 587 is the Balance Sheet of The Blank Company, Limited, as on 31st December.

REDEMPTION OF REDEEMABLE PREFERENCE SHARES

Redeemable preference shares are only capable of redemption when fully paid, as laid down in Section 46 of the Companies Act, 1929. Other conditions regulating their redemption, and set forth in the above-mentioned section of the Companies Act, 1929, are as under—

I. The redemption may be provided by—

(*a*) cash representing profits available for dividends, or

(*b*) by the proceeds of a new issue of shares for that purpose.

II. When the shares are redeemed out of profits a corresponding amount must be transferred to a " fund." The fund is to be entitled Capital Redemption Reserve Fund.

III. The Balance Sheet must contain a statement of that part of the company's issued capital which consists of Redeemable Preference Shares, together with a statement of the latest date such shares are liable to be redeemed.

On page 586 is a chart showing the book-keeping entries arising on the redemption of shares, and students are advised to study the formulae it contains.

NOTE. The word " Fund " is the word provided by statute and must be used in the title of the Reserve created at the time of the redemption of redeemable preference shares. Technically, the word " fund " is more generally applied to Reserves which are represented by investments.

FORMULAE FOR BOOK-KEEPING ENTRIES REQUIRED ON THE REDEMPTION OF REDEEMABLE PREFERENCE SHARES

At Par	At a Premium	At a Discount	By an Issue of Shares for the Purpose
DEBIT Redeemable Preference Share Capital A/c. CREDIT Bank A/c. Cash to holders of............ shares redeemed.	DEBIT Redeemable Preference Share Capital A/c. CREDIT Preference Capital Redemption A/c. For amount of shares being redeemed.	DEBIT Redeemable Preference Share Capital A/c. CREDIT Preference Capital Redemption A/c. For nominal amount of shares being redeemed.	DEBIT Redeemable Preference Share Capital A/c. CREDIT (a) Cash. CREDIT (b) Preference Capital Redemption A/c. For amount of shares being redeemed. (a) If redeemed at par. (b) If redeemed at a premium.
DEBIT Profit and Loss Appropriation A/c. CREDIT Capital Redemption Reserve Fund. Transfer to Reserve of amount redeemed.	DEBIT Profit and Loss Appropriation A/c. CREDIT Preference Capital Redemption A/c (a). CREDIT Capital Redemption Reserve Fund (b). For transfer of premium to (a) and transfer of amount redeemed to (b).	DEBIT Profit and Loss Appropriation A/c. CREDIT Capital Redemption Reserve Fund. For nominal amount of value of shares redeemed.	DEBIT Profit and Loss Appropriation A/c. CREDIT Preference Capital Redemption A/c. Transfer of premium (if any).
NOTE The normal entries relating to an issue of shares will also arise when shares are redeemed by an issue of shares.	DEBIT Preference Capital Redemption A/c. CREDIT Bank A/c. Cash to holders of............ shares redeemed.	DEBIT Preference Capital Redemption A/c. CREDIT Bank A/c. Cash to holders of............ shares redeemed.	DEBIT (a) Redeemable Preference Share Capital A/c. DEBIT (b) Preference Capital Redemption A/c. CREDIT Bank A/c. Cash to holders of............... shares redeemed. (a) If redeemed at par. (b) If redeemed at a premium.

BALANCE SHEET

	£	£		£
CAPITAL.			Patent A/c at cost . .	114,663
Nominal—			Leasehold Works A/c .	3,820
100,000 Preference Shares of £1 each	100,000		Machinery and Plant A/c	4,120
100,000 Ordinary Shares of £1 each	100,000		Sundry Debtors . .	1,241
	£200,000		Stock on hand . .	4,921
Issued—			Advertising Suspense A/c .	2,000
74,720 Preference Shares of £1 each fully paid. .	74,720		Preliminary Expenses A/c	406
42,633 Ordinary Shares of £1 each fully paid. .	42,633		Profit and Loss A/c . .	1,482
		117,353	Cash in hand . . .	28
Sundry Creditors .		14,000		
Bank Overdraft .		1,328		
		£132,681		£132,681

The Company proved unsuccessful, and resolutions were passed to carry out the following scheme of reconstruction: (1) That the £1 Preference Shares be reduced to an equal number of fully-paid shares of 10s. each. (2) That the £1 Ordinary Shares be reduced to an equal number of fully-paid shares of 6s. 8d. each. (3) That the amount thus rendered available for the reduction of the assets be apportioned as follows: The Preliminary Expenses Account, Profit and Loss Account, and Advertising Suspense Account, to be written off entirely; £1,200 to be written off the Leasehold Works Account; £1,400 to be written off the Stock Account; 20 per cent Depreciation to be written off the Machinery and Plant Account, and the balance available to be written off the Patents Account. Prepare a Balance Sheet giving effect to these proposals. (*London Chamber of Commerce.*)

3. A Company, with a paid-up capital of £200,000 in £1 shares, having accumulated a Reserve of £60,000, resolves to capitalize £40,000 of it by issuing to the shareholders 40,000 bonus shares of £1 each, fully paid, each shareholder to receive one bonus share for every five shares held in the Company. Make the Journal entries required to record the transaction.

4. A Company with a nominal and issued capital of £150,000 in £1 shares 15s. per share paid, declares a bonus, out of the Reserve Fund, at the rate of 33⅓ per cent on the paid-up capital, with the object of making the shares fully paid. Make the Journal entries required to record the transaction.

5. A Company borrowed £18,000 on Debentures, at a discount of 5 per cent, repayable *at par* at the end of ten years, and decides to provide for redemption by means of an annual Sinking Fund at 5 per cent compound interest. Show the subsidiary book entries, the Ledger Account affected, and explain the procedure at the end of the period.

6. A Limited Company has a balance of £10,500 at the credit of its Profit and Loss Account, and instead of declaring a dividend, it resolves to use the profits to pay off £10,000 Debentures, now due, at a premium of 5 per cent. Make the necessary Journal and Cash Book entries and show the Ledger Accounts affected.

7. A Limited Company issued £15,000 Debentures at a discount of 5 per

cent, repayable *at par* by annual drawings of £1,875. Show the Cash Book and the Ledger Accounts affected.

8. A Limited Company has power under its Articles of Association to apply its profits to the purchase of its Debenture Stock in the open market and to cancel same. The amount standing to the credit of Profit and Loss is £8,500, and to the credit of Debenture Stock Account £32,000. The Company's bank balance is £18,000, and the directors decide to expend £8,500 of it in purchasing and cancelling further Stock, the market price of which, inclusive of all charges, is 93 per cent. Show the Ledger Accounts, etc., affected.

REVISION EXERCISE XV

1. George Dixon, a shareholder in Rayon D'Or, Limited, had applied for, and was allotted, 200 Ordinary Shares of £1 each. He duly paid 5s. per share on application and 5s. per share on allotment, in accordance with the conditions of the issue. A call of 5s. per share was made by the directors, and was payable on 1st August, but all applications for the amount due from him were ignored by George Dixon. Under the provisions of the Articles of Association, the shares were forfeited by Resolution of the directors on 31st December. Give the entries, recording the above transaction, which would appear in the books and accounts of the Company. (*Royal Society of Arts, Accounting.*)

2. Explain, briefly, the meanings of the undermentioned terms as applied to Assurance companies—

Quinquennial Valuation. Loading. Half-credit Policy. Industrial Policy. Re-Assurances. Bonus.

If any of the above items would affect the annual accounts, explain, briefly, where they would appear. (*Royal Society of Arts, Accounting.*)

3. (*a*) Explain—and illustrate by *pro forma* Journal entries—the three ways a company may provide for the redemption of its debentures.

(*b*) Under what circumstances may bonus shares be issued? Support your answer with an illustration of the way a company will record the issue of such shares.

4. The following represent the balances of the London books of the Eastern Company, Ltd., as on 31st December, viz.—

	£		£
Share Capital (70,000 shares of £1 each, fully paid)	70,000	Reserve for Doubtful Debts	100
Bills Payable	5,500	Creditors	5,000
Bills Receivable	2,000	Payments in Advance	500
Investments at cost	14,000	Properties	25,000
General Reserves	8,000	Profit and Loss . *Dr.*	21,200
Stocks on hand	600	Rangoon A/c	18,760
Debtors	3,000	Cash at Bank	3,500
		Cash in hand	40

Bills Receivable aggregating £4,000 were under discount.

The following statement of Assets and Liabilities at 31st December was received from the manager of the Company's Rangoon Branch, viz.—

	Rs.	*a.*	*p.*		*Rs.*	*a.*	*p.*
Cash at Bankers	185,372	5	–	Buildings, Plant, etc.	46,280	12	–
Cash in hand	19,269	8	–	Debtors	87,963	13	6
London A/c (£17,938 1s. 10d.)	269,071	6	–	Payments in Advance	3,000	–	–
General Reserves	75,284	14	–	Reserve for Doubtful Debts	2,000	–	–
Stocks on hand	327,595	3	–	Creditors	548,125	5	–
Advances to Natives against security	225,000	–	–				

The apparent difference, between the balance of the Rangoon Account in the London Books and the London Account in the Rangoon Books, consists of items in transit. You are required to prepare an amalgamated Balance Sheet as at 31st December.

The rupee to be taken at 1s. 4d. (16 annas = 1 rupee, 12 pies = 1 anna). (*Chartered Accountants.*)

5. Messrs. Crane, Derrick, & Co., Ltd., Railway and General Contractors, whose head offices and works are at Porthampton, are engaged on two large contracts, as follows—

No. 1 Contract. Light Railway for the New Forest Light Railway Co., Ltd., at a contract price of £150,000.

No. 2 Contract. New Hotel for the Sussex Development Co., Ltd., at a contract price of £210,000.

No. 1 Contract was commenced in January, and
No. 2 Contract in March.

On 31st December the following balances stood in the books of the Company in respect of these contracts—

No. 1 Contract.	Plant and Machinery .	£5,000	
,,	Purchases . . .	30,000	
,,	Wages and Salaries .	43,000	
,,	Sundry Expenses . .	2,500	
,,	Cash received on account		£60,000
No. 2 Contract.	Plant and Machinery .	3,500	
,,	Purchases . .	80,000	
,,	Wages and Salaries .	56,000	
,,	Sundry Expenses . .	1,500	
,,	Cash received on account		£120,000

The value of materials on hand and work finished but not certified for was as follows: No. 1 Contract, £2,500; No. 2 Contract, £6,500. In the case of No. 1 Contract, 80 per cent of the amounts certified for was paid to the contractors, the remaining 20 per cent being retained until completion. In the case of No. 2 Contract the retentions amounted to £22,500.

Make out accounts in respect of each contract. Deal with the Plant and Machinery employed on the contracts in the way you consider best, stating your reason. Show the profit earned in respect of each contract, and say what you consider the Company would be justified in carrying to Profit and Loss Account in respect of them on 31st December. (*Chartered Accountants.*)

6. The X Mining Co., Ltd., having its registered office in London, remitted to its manager in West Australia during the year the sum of £5,000. At the end of the year it received from its managers returns showing expenditure as follows: Wages on Development, £1,000, Wages on Mining and Milling, £1,200, Salaries £500, Stores £1,500, Sundry Expenses £200. During the year stores to the amount of £500 had been used chargeable against development, and £700 chargeable against mining and milling. Bullion sold had produced £2,400, and the estimated amount of bullion unsold was £500. Show the Journal entries in the Head Office books. (*Chartered Institute of Secretaries.*)

7. The Wayside Boot Co., Ltd., was registered with a nominal capital of £50,000, divided into 10,000 Preference Shares of £1 each, and 800,000 Ordinary Shares of 1s. each.

On 31st December, a Trial Balance, containing the following Balances, as shown on page 590, was extracted from the books of the Company.

	£	s.	d.
Ordinary Share Capital A/c	35,820	–	–
Preference Share Capital A/c . .	10,000	–	–
Pension Fund . .	4,980	–	–
Goodwill A/c . .	5,000	–	–
Debenture Capital (100 5% Debentures of £50 each . .	5,000	–	–
Pension Fund Investments . . .	4,540	–	–
Stable Expenses .	421	–	–
Machinery and Plant A/c	7,455	–	–
Transfer Fees received	1	10	–
General Expenses .	939	–	–
Cost of Trade Catalogues . . .	256	–	–
Bank Charges . .	17	–	–
Company's contribution to the Pension Fund . . .	500	–	–
Bonus paid to employees . .	763	–	–
Gas, Electricity, and Water . . .	1,567	–	–
Manager's Salary .	1,500	–	–
Purchases . .	97,651	–	–
Purchases Returns .	1,243	–	–
Interest paid on Debentures . .	238	10	–
Directors' Fees .	250	–	–
Boxes and Packing .	674	–	–
Bills Payable . .	2,162	–	–
Discounts Allowed .	1,251	–	–
Discounts Received .	1,978	–	–

	£	s.	d.
Sales . . .	131,276	–	–
Sales Returns . .	946	–	–
Carriage . . .	3,460	–	–
Stock in hand (1st January)—			
Finished goods .	11,264	–	–
Materials and unfinished goods .	8,457	–	–
Cost of Repairs to Machinery and Plant	293	–	–
Debtors as per Sales Ledger . . .	16,245	–	–
Creditors as per Bought Ledger . . .	11,747	–	–
Bad Debts written off	315	–	–
Factory Wages .	7,299	–	–
Postage and Stationery	444	–	–
Horses and Vans .	946	–	–
Audit Fee and Legal Charges . .	274	–	–
Rent, Rates, Taxes, and Insurance .	1,173	–	–
Office Salaries . .	4,216	–	–
Bills Receivable .	1,931	–	–
Advertising . .	470	–	–
Freehold Land and Buildings . .	18,442	–	–
Cash at Bank . .	3,259	–	–
,, ,, (Pension Fund) . . .	440	–	–
Cash in hand . .	75	–	–
Profit and Loss A/c (Debit Balance, brought forward from last year) .	1,236	–	–

Before closing the books, the following adjustments are necessary—

1. One month's carriage is owing and has not been passed through the books £472
2. Rent due to landlord but not provided for 150
3. Value of Unexpired Insurance Premium . . . 197
4. Wages paid in advance 84
5. Reserve to be created for Bad Debts 750
6. Write off the following depreciations—

   (*a*) Machinery and Plant . . 10%
   (*b*) Horses and Vans . . £146
   (*c*) Land and Buildings . . 2½%

The stock as on 31st December was valued as follows—

Finished Goods £13,241
Raw Materials and Unfinished Goods £5,192

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

CHAPTER XVI

AMALGAMATION, RECONSTRUCTION, AND REORGANIZATION OF LIMITED COMPANIES

Amalgamation. Of recent years there has been an increasing tendency for companies engaged in the same or similar classes of business to combine and amalgamate, their purpose being to effect economies by eliminating wasteful duplication of expenditure and also to decrease the risk of competition. Many different methods are adopted, varying according to circumstances and the wishes of the directors and/or shareholders of the companies concerned.

The principal forms of amalgamation may be described thus—

1. *Formation and promotion of a new (purchasing) company* to take over the assets, etc., of two or more existing companies, the latter being wound up on completion of the transfer. Alternatively, the new company may become a "holding company," i.e. it acquires and holds the shares of the existing companies who retain their separate existence.
2. *Amalgamation by absorption,* where one existing company purchases and takes over the entire business of another company, and the latter is wound up.
3. *Amalgamation by the acquirement of a controlling interest,* where one company purchases not less than three-fourths of the issued capital of another company, and both companies retain their separate existence.

AMALGAMATION BY FORMATION OF A NEW COMPANY; THE OLD COMPANIES BEING WOUND UP

A striking example of this method of amalgamation was the combination into four distinct groups of the railways of Great Britain, each group consisting of several companies whose assets were transferred to one new company. The old companies ceased to exist, and the new company issued fresh stock certificates to the shareholders of the old companies in accordance with the terms arranged.

In the amalgamation of limited companies, it is necessary first to obtain the shareholders' sanction to the scheme of amalgamation and the sale of the assets to the new company; and then to appoint liquidators whose duty it is (1) to carry the scheme into effect, and (2) to wind up the vendor companies. The liquidators, however, really act as the vendor to the new company, from whom they receive the purchase consideration (usually fully-paid shares

of the new company, but sometimes partly cash and partly shares or debentures). The cash and/or shares, etc., is distributed to the shareholders of the old companies.

Closing the Books of the Old Companies. The precise procedure varies in accordance with the terms arranged for the transfer of the old companies' businesses, e.g. whether the new company takes over the cash as well as the other assets and discharges the liabilities, etc., or otherwise. The following formula, which is expressed in general terms, may be found useful.

1. Open a "Business Realization Account," *debiting* this account with the assets taken over and *crediting* it with the liabilities transferred. The contra entries appear in the various assets and liabilities accounts, which are now closed.

2. *Debit* the new company and *credit* "Business Realization Account," the balance of the latter account being transferred to a "Sundry Shareholders' Account." A credit balance indicates a profit on realization, whilst a debit balance represents a loss. In some cases, however, the net assets are taken over at the book values and thus neither a profit nor a loss occurs.

3. Open a "Shares Account," *debiting* it with the value of the shares received from the new company. If the purchase consideration includes cash or debentures, additional accounts are opened as may be required.

4. *Debit* the "Sundry Shareholders' Account" with the amount of shares, debentures or cash distributed, to the shareholders and *credit* Shares, Debentures or Cash Account, as the case may be.

5. Close the Share Capital Account, Reserve Account (if any), and Profit and Loss Account by transfer to the Sundry Shareholders' Account.

6. Where the old company retains its cash balance, discharges its liabilities, and pays its own expenses, these transactions are passed through the Cash Account, the expenses incurred being debited to the "Business Realization Account."

Fractional Certificates. Occasionally the allotment of shares in the new company involves the issue of fractional certificates. For example, the Batcedo Co. issues 200,000 shares of £1 each as purchase consideration to the Bat Co., whose issued capital is £150,000 only and, therefore, four shares in the new company are issued in exchange for three shares of the old company. Thus, a shareholder owning ten shares is entitled to $10 \times \frac{4}{3} = 13\frac{1}{3}$ shares in the new company. Two methods are available for dealing with the fractional parts, viz.—

1. Fractional certificates are issued and shareholders must either sell them or buy additional fractional certificates to make up a whole share. Upon surrender of the requisite fractional certificates, a complete share is allotted and issued.

(2) The company sells sufficient shares to represent the total fractional parts and distributes the proceeds to the members entitled thereto.

Fractional parts of a share may also arise under reconstruction schemes or schemes for the reorganization of the share capital and are dealt with as outlined above.

DISTRIBUTION OF SHARES, ETC., TO THE OLD SHAREHOLDERS

The liquidators of the old companies prepare a Share Distribution List, showing the names and addresses of the old shareholders, and particulars of their shareholding in the old and new companies. If fractional certificates are involved, or if the purchase

SHARE DISTRIBUTION LIST

LEFT-HAND RULING.

Old Share Led. Fo.	Name		Address and Occupation	Shares in Old Company			
	Surname	Christian Names		Old Cert. No.	No. of Shares	Distinctive Numbers	
						From	To

RIGHT-HAND RULING.

Shares in New Company				New Share Led. Fo.	Cash Payment				Remarks
New Cert. No.	No. of Shares	Distinctive Numbers			Chq. No.	Amount			
		From	To						
						£	s.	d.	

consideration includes the issue of debentures or a cash payment to the old shareholders, additional columns must be provided for these particulars. A duplicate of this list is handed to the new company, and forms the basis of the allotment and entries in the new share registers, etc.

New Company's Books. The entries to be made in the new company's books are as follows—

1. *Debit* each asset account, including goodwill, and *credit* " Business Purchase Account," with the total.

2. *Debit* " Business Purchase Account " with the total of the liabilities taken over, and *credit* the separate liability accounts.

3. *Debit* " Business Purchase Account," and *credit* the liquidators of the vendor companies with the agreed purchase price.

4. *Debit* the liquidators of the vendor company with the total allotment of shares, debentures, or cash paid (as the case may be) in satisfaction of the purchase price.

5. Where the new company obtains the benefit of any reserves or undivided profits, the Business Purchase Account will show a credit balance as the total value of the assets transferred will be in excess of the combined total of the liabilities and purchase price. This balance should be transferred to the credit of a Capital Reserve Account; it is not permissible to use it for revenue purposes. Payments for liquidation or preliminary expenses in connection with the acquirement of the business may be debited to this account, and the balance utilized for the reduction of goodwill.

6. If the combined total of the liabilities taken over and the purchase price is in excess of the total value of the assets, the difference is debited to Goodwill.

7. In some cases, the new company makes a further capital issue to provide additional working capital. The entries required for such issue will be identical with the entries for new companies discussed in Chapter XII.

Example. The Bat Co., Ltd., and the Cedo Co., Ltd., agree to combine and form a new company under the title of the Batcedo Co., Ltd., with a capital of £300,000 in £1 shares to acquire their businesses. The sale contract provides that the new company is to take over the whole of the assets and liabilities of both companies, the consideration being the issue to the Bat Co. of £200,000, and to the Cedo Co. of £75,000 in fully-paid £1 shares, the latter company also to receive £7,500 in cash.

The new company is to pay the liquidation expenses of the Bat Co. (£900) and Cedo Co. (£600), and its own formation expenses of £1,800, these amounts to be charged against the Capital Reserve Account.

The balances in the books of the vendor companies at the date of the amalgamation were as shown at the top of the next page.

	Bat Co.		Cedo Co.	
	Dr.	*Cr.*	*Dr.*	*Cr.*
	£	£	£	£
Issued Share Capital		150,000		75,000
Goodwill	25,000		10,000	
Freehold and Leasehold Property	95,600		45,280	
Plant and Machinery	35,250		21,560	
Stock-in-Trade	18,760		12,685	
Sundry Debtors	12,655		6,525	
Sundry Creditors		8,620		5,680
Mortgage on Property				10,000
Bank Balances	27,605		3,130	
Reserve Account		50,000		5,000
Profit and Loss Balances		6,250		3,500
	£214,870	£214,870	£99,180	£99,180

Assume that the amalgamation was duly completed and the mortgage paid off. Prepare (1) the liquidators' closing accounts for the old companies, and (2) the opening accounts and the first balance sheet of the new company.

Books of the Bat Co., Ltd.

The principal ledger accounts are as follows—

Dr. BUSINESS REALIZATION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Sundry Assets	214,870	–	–	By Creditors	8,620	–	–
				" Batcedo Co.	200,000	–	–
				" Sundry Shareholders (Balance written off)	6,250	–	–
£	214,870	–	–	£	214,870	–	–

Dr. BATCEDO CO., LTD. *Cr.*

	£	s.	d.		£	s.	d.
To Business Realization A/c (Agreed purchase price)	200,000	–	–	By Shares A/c	200,000	–	–

Dr. SHARES ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Batcedo Co., Ltd. (Shares received)	200,000	–	–	By Sundry Shareholders (Distribution of shares)	200,000	–	–

Dr. SHARE CAPITAL ACCOUNT **Cr.**

	£	s.	d.		£	s.	d.
To Sundry Shareholders .	150,000	–	–	By Balance b/f . .	150,000	–	–

Dr. RESERVE ACCOUNT **Cr.**

	£	s.	d.		£	s.	d.
To Sundry Shareholders .	50,000	–	–	By Balance b/f . .	50,000	–	–

Dr. PROFIT AND LOSS ACCOUNT **Cr.**

	£	s.	d.		£	s.	d.
	6,250	–	–	By Balance b/f . .	6,250	–	–

Dr. SUNDRY SHAREHOLDERS **Cr.**

	£	s.	d.		£	s.	d.
To Shares Distributed .	200,000	–	–	By Capital A/c . .	150,000	–	–
" Business Realization A/c . . .	6,250	–	–	" Reserve A/c . .	50,000	–	–
				" Profit and Loss . .	6,250	–	–
£	206,250	–	–	£	206,250	–	–

Books of the Cedo Co., Ltd.

Dr. BUSINESS REALIZATION ACCOUNT **Cr.**

	£	s.	d.		£	s.	d.
To Sundry Assets . .	9,9180	–	–	By Creditors . . .	5,680	–	–
				" Mortgage . . .	10,000	–	–
				" Batcedo Co., Ltd. .	82,500	–	–
				" Sundry Shareholders .	1,000	–	–
	£99,180	–	–		£99,180	–	–

Dr. MORTGAGE ACCOUNT **Cr.**

	£	s.	d.		£	s.	d.
To Business Realization A/c . . .	10,000	–	–	By Balance b/f . .	10,000	–	–

Dr. BATCEDO CO., LTD. **Cr.**

	£	s.	d.		£	s.	d.
To Business Realization A/c . . . . (Agreed purchase price)	82,500	–	–	By Shares . . .	75,000	–	–
				" Cash . . .	7,500	–	–
	£82,500	–	–		£82,500	–	–

Dr. SHARES ACCOUNT **Cr.**

	£	s.	d.		£	s.	d.
To Batcedo Co., Ltd. . (Shares received) .	75,000	–	–	By Sundry Shareholders . (Distribution of Shares)	75,000	–	–

SHARE CAPITAL ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
To Sundry Shareholders	75,000	–	–	By Balance b/f	75,000	–	–

RESERVE ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
To Sundry Shareholders	5,000	–	–	By Balance b/f	5,000	–	–

PROFIT AND LOSS ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
To Sundry Shareholders	3,500	–	–	By Balance b/f	3,500	–	–

SUNDRY SHAREHOLDERS

Dr.	£	s.	d.	Cr.	£	s.	d.
To Shares Distributed	75,000	–	–	By Capital A/c	75,000	–	–
„ Cash	7,500	–	–	„ Reserve A/c	5,000	–	–
„ Business Realization A/c	1,000	–	–	„ Profit and Loss	3,500	–	–
	£83,500	–	–		£83,500	–	–

Books of the Batcedo Co., Ltd.

LIQUIDATOR OF THE BAT CO., LTD.

Dr.	£	s.	d.	Cr.	£	s.	d.
To Creditors (liabilities taken over)	8,620	–	–	By Sundry Assets	214,870	–	–
„ Shares issued in Payment of Purchase	200,000	–	–				
„ Balance Transferred to Reserve	6,250	–	–				
£	214,870	–	–	£	214,870	–	–

LIQUIDATOR OF THE CEDO CO., LTD.

Dr.	£	s.	d.	Cr.	£	s.	d.
To Creditors (liabilities taken over)	5,680	–	–	By Sundry Assets	99,180	–	–
„ Cash—Mortgage paid off	10,000	–	–				
„ Shares Issued in Part Payment	75,000	–	–				
„ Cash—Balance of Purchase Price	7,500	–	–				
„ Balance transferred to Reserve	1,000	–	–				
	£99,180	–	–		£99,180	–	–

Dr. SHARE CAPITAL ACCOUNT Cr.

	£	s.	d.		£	s.	d.
				By Bat Co.	200,000	–	–
				" Cedo Co.	75,000	–	–
				£	275,000	–	–

Dr. CAPITAL RESERVE ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Cash—Bat Liquidation Expenses	900	–	–	By Bat Co.	6,250	–	–
" " Cedo Liquidation Expenses	600	–	–	" Cedo Co.	1,000	–	–
" " Preliminary Expenses	1,800	–	–				
" Balance c/d	3,950	–	–				
	£7,250	–	–		£7,250	–	–
				By Balance b/d	3,950	–	–

Dr. CASH ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Cash transferred from Bat Co.	27,605	–	–	By Cedo Co., Mortgage paid off	10,000	–	–
" Cedo Co.	3,130	–	–	" Cedo Co., Balance of Purchase Price	7,500	–	–
				" Liquidation Expenses, Bat Co.	900	–	–
				Cedo Co.	600	–	–
				" Preliminary Expenses	1,800	–	–
				" Balance c/d	9,935	–	–
	£30,735	–	–		£30,735	–	–
To Balance b/d	9,935	–	–				

BALANCE SHEET OF THE BATCEDO CO., LTD.

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Nominal Share Capital, 300,000 Shares of £1 each	300,000	–	–	Goodwill	35,000	–	–
				Freehold and Leasehold Property	140,880	–	–
Issued Share Capital: 275,000 Shares of £1 each, fully paid	275,000	–	–	Plant and Machinery	56,810	–	–
Capital Reserve A/c	3,950	–	–	Stock-in-Trade	31,445	–	–
Sundry Creditors	14,300	–	–	Sundry Debtors	19,180	–	–
				Cash	9,935	–	–
£	293,250	–	–	£	293,250	–	–

Amalgamation by Formation of a "Holding Company." This method is a variation of the preceding one; the old companies continue their separate existence, and the new company either—

(1) Purchases the shares of the old companies for cash, in which case the entries required are a debit to Investment Account and a credit to cash for the amount paid for the shares; or

(2) Allots and issues its own shares in exchange for the shares of the old companies. By this method, the entries required are

a debit to Investment Account and a credit to Share Capital Account.

Whichever method is adopted, the financial books of the old companies are not affected; all that occurs is a change of shareholders, and this change is effected by the execution of transfer deeds in the usual manner; the entries recording the transfers being made in the Register of Transfers and Share Ledger.

The new "holding" company makes a public issue of capital to provide itself with the necessary funds; the financial books recording this issue being written up in the ordinary way. Nominally, the assets of the new company consist of shares in the old companies, but, in reality, the "holding" company is the absolute owner of the old companies' businesses.

Amalgamation by Absorption. Where one company acquires the business of another, the latter company going into liquidation and its separate existence being terminated, the transaction is described as "amalgamation by absorption." Usually, the purchasing company acquires the entire undertaking, i.e. it takes over the whole of the assets and also discharges the liabilities, but in some cases, only the assets are transferred, the liabilities being paid by the vendor company.

A practical point which arises for consideration is that the vendor company's business may be a valuable one and the sale, consequently, results in a profit to the shareholders, such profit arising (1) from a higher price being paid for Goodwill than the amount at which it stands in the company's books, (2) the reserves being no longer required, and (3) the market value of the purchasing company's shares (which form part of the sale consideration) being greater than their nominal value. In some cases the market price of the shares may be at a discount, but as this probably will be taken into consideration when fixing the purchase price for the absorbed company's business, the absorption may still show a profit to the shareholders. In order to show the transaction in its true aspect, the vendor company should pass the shares received through its books at their market value.

With the purchasing company, however, different considerations arise, and the shares issued in payment (or part payment) must be dealt with on the basis of their nominal value. Thus, if company A, whose £1 shares stand at a premium of 10s. per share, purchases the undertaking of company B for £150,000, payable in fully-paid £1 shares, and the net assets acquired (i.e. the excess of total assets over liabilities) are valued at £230,000, the purchasing company apparently makes a profit of £80,000, as it acquires assets worth that amount in excess of the purchase price. The real effect of the transaction is, however, that company A issues shares of the total nominal value of £150,000 at a premium of £80,000, and the

latter amount must be credited to a Premium on Shares Account. The true intrinsic value of a share is not its nominal value but its market value, i.e. the price at which it may be bought or sold; and it will be seen that the shareholders of the vendor company receive, approximately, the true value of the assets transferred.

Generally, the purchase price is fixed after a detailed valuation of the assets and liabilities has been agreed upon but, in some cases, the practice obtains of settling the purchase price on the basis of the market value of the vendor company's shares. For example, if company C, whose shares stand at 5s. per share premium, has an issued capital of £80,000, this indicates that the market estimates the total value of the net assets, in round figures, at £100,000. Now, if the undertaking is absorbed by company D on this basis, the purchase price payable is £100,000, whatever the book value of the assets may be. Usually, they are somewhat less, and the purchasing company must revalue the assets and make the necessary adjustments. Floating assets and liabilities must appear at their actual value, whilst the surplus of the purchase price over the book value of the remaining assets is attributable either (1) to an increase in value of some of the fixed assets (land, property, etc.), or (2) to the value of the goodwill.

Example. The Balance Sheet of the Dale Co., Ltd., at 31st December, 19.... is as follows:—

Liabilities	£	*Assets*	£
Capital		Land and Buildings	75,000
120,000 shares of £1 each,		Plant and Machinery	36,450
fully paid	120,000	Stock-in-Trade	45,575
Reserve Fund	60,000	Sundry Debtors	38,250
Sundry Creditors	21,250	Cash at Bankers	12,380
Profit and Loss A/c,		Cash in Hand	123
Balance at Credit	6,528		
	£207,778		£207,778

The entire undertaking is acquired—as on the above date—by the Somerton Co., Ltd., the agreed purchase consideration being the payment in cash of £100,000 and the allotment of two fully paid £1 shares (market value 25s. per share) of the Somerton Co. in exchange for each three shares of the Dale Co. The liquidation expenses of the vendor company amount to £1,500, the balance of the cash consideration being distributed *pro rata* amongst the shareholders.

Close the books of the vendor company and show the opening entries in the books of the purchasing company to record the acquisition of the business.

Books of the Dale Co., Ltd.

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		£	£
	Realization Account . . . . . *Dr.* To Sundry Assets . . . . . . being total value of assets disposed of.	207,778	207,778
	Sundry Creditors . . . . . *Dr.* To Realization Account . . . . . being amount of liabilities handed over.	21,250	21,250
	Somerton Co., Ltd. . . . . . *Dr.* To Realization Account . . . . . being agreed purchase price.	200,000	200,000
	Shares Account . . . . . *Dr.* Cash Account . . . . . . ,, To Somerton Co., Ltd. . . . . . being receipt of purchase consideration; £100,000 in cash, and 80,000 shares of £1 each fully paid, valued at 25s. per share.	100,000 100,000	200,000
	Realization Account . . . . . *Dr.* To Cash . . . . being payment of liquidation expenses.	1,500	1,500
	Share Capital Account . . . . *Dr.* Reserve Fund . . . . . . ,, Profit and Loss Account . . . . ,, To Sundry Shareholders . . . . being transfer of balances.	120,000 60,000 6,528	186,528
	Business Realization Account . . *Dr.* To Sundry Shareholders . . . . being transfer of profit on realization.	11,972	11,972
	Sundry Shareholders . . . . *Dr.* To Shares . . . . To Cash . . . . being distribution of 16s. 8d. in the £ in shares and 16s. 5d. in the £ in cash.	198,500	100,000 98,500

The two principal ledger accounts are as follows—

Dr. REALIZATION ACCOUNT *Cr.*

		£			£
	To Sundry Assets.	207,778		By Creditors .	21,250
	,, Liquidation Expenses . .	1,500		,, Somerton Co.	200,000
	,, Transfer to Sundry Shareholders	11,972			
		£221,250			£221,250

Dr. SUNDRY SHAREHOLDERS *Cr.*

		£			£
	To Shares . . 80,000 £1 shares at 25s. . .	100,000		By Share Capital	120,000
	,, Cash . .	98,500		,, Reserve Fund	60,000
				,, Profit and Loss	6,528
				,, Realization Account .	11,972
		£198,500			£198,500

Books of the Somerton Co., Ltd.

JOURNAL

		£	£
	Land and Buildings *Dr.*	75,000	
	Plant and Machinery ,,	36,450	
	Stock-in-Trade ,,	45,575	
	Sundry Debtors ,,	38,250	
	Cash at Bankers ,,	12,380	
	Cash in Hand ,,	123	
	To Liquidator of the Dale Co., Ltd. .		207,778
	being value of assets acquired.		
	Liquidator of the Dale Co., Ltd. *Dr.*	21,250	
	To Sundry Creditors		21,250
	being liabilities taken over.		
	Liquidator of the Dale Co., Ltd. *Dr.*	186,528	
	To Share Capital Account . . .		80,000
	being allotment of 80,000 shares of £1 each, fully paid.		
	To Cash		100,000
	,, Premium on Shares Account . .		6,528
	being excess value of the net assets over the nominal value of shares and cash paid.		

The Ledger Account for the liquidator of the Dale Co. will appear as follows:—

Dr. LIQUIDATOR OF THE DALE CO., LTD. *Cr.*

		£			£
	To Sundry Creditors . . .	21,250		By Sundry Assets	207,778
	,, Share Capital .	80,000			
	,, Cash . .	100,000			
	,, Premium on Shares . .	6,528			
		£207,778			£207,778

Amalgamation by the Acquirement of a Controlling Interest. Under this form of amalgamation, an existing company purchases a sufficient number of shares of another company so as to obtain a controlling interest in the latter concern; the shares being acquired either by agreement with the shareholders or by purchase in the open market. The Companies Act, 1929, provides that a three-fourths majority of the shareholders, present either personally or by proxy at an extraordinary general meeting, is needed to pass certain resolutions effecting any important alterations in the constitution—or the regulations—of the company. To ensure effective control, therefore, the shares acquired must be not less than three-fourths of the issued capital.

The entries required in the books of the purchasing company are a debit to Investment Account (Shares in . . . Co., Ltd.) and a credit to cash for the cost of the shares purchased; the investment appearing as an asset in the Balance Sheet. The financial books of the company whose shares are purchased are not affected; all that occurs is a change of shareholders, the new shareholders being either the purchasing company itself or its nominees; the only entries made are in the Transfer Register and the Share Ledger recording the transfer of the shares.

Both companies continue their separate existence, but, usually, the purchasing company nominates, wholly or partially, a fresh directorate and thereby obtains control over the other company's activities.

Reconstruction. The term " Reconstruction " is commonly used to describe a scheme under which a company goes into liquidation for the express purpose of selling its assets to a new company for partly paid shares carrying a further liability. Usually, the liquidating company has exhausted its working capital and, by means of such a scheme, the company is reconstructed and reconstituted so as to form a new company with precisely the same objects, the same or a similar name, and composed of the same shareholders, who are called upon to provide additional working capital.

Reconstruction schemes, however, may also be initiated for the purpose of (1) widening the company's sphere of operations by enlarging the powers contained in its Memorandum of Association, (2) changing the domicile of the company, e.g. a Scottish company registered at Edinburgh wishing to become an English company with a London registration, or (3) carrying into effect a compromise with its creditors and/or members, by which the creditors will accept shares or debentures in satisfaction of their debts. The Companies Act, 1929 (Section 155), empowers the company to acquire the shares of shareholders dissenting from the scheme or contract approved by the majority.

The term "reconstruction" is also used in connection with schemes for reduction of capital; this phase of the subject is dealt with in Chapter XV.

Entries in the Books. The entries in the financial books of the old company are similar to those for the liquidation of a vendor company in an amalgamation. For the new company, the entries are upon the same lines as for a new company acquiring a vendor's business in exchange for shares credited as full or partly paid.

When partly-paid shares are issued, the entries for the additional capital called up are made in the ordinary manner. (See Call Accounts, page 391, and Call Books, page 499.)

Reorganization. This term is generally used to denote the re-arrangement of a company's share capital, either by the consolidation of shares of different classes, or by the subdivision of the shares into different classes. Simple consolidation of shares and their division into shares of larger amount than existing shares, or the subdivision of shares into shares of smaller amount is sanctioned by Section 50 of the Companies Act, 1929, and such alterations must be notified to the Registrar of Companies within one month of their being put into effect.

Where the re-arrangements involve the revision of preferential or deferred rights possessed by certain classes of shareholders, such revision must be sanctioned by the shareholders and subsequently confirmed by the Court in the manner provided for by Section 61 of the 1929 Act.

Reorganization differs from Reconstruction in that the latter usually involves the liquidation and winding up of the original company, a new company taking over its entire undertaking, whilst reorganization does not involve liquidation, the company continuing its separate existence with a re-arrangement of its capital and possibly the revision of the rights of different classes of shareholders.

Further, reorganization differs from reconstruction in that the latter change follows from the exhaustion of and inability to raise working capital; whereas the former change is a matter of expediency only in regard to having its share capital consolidated, or divided.

A close study of the practical examples in this chapter should aid the students' discrimination of the terms under which changes in the formation, control and capital, etc., of companies are treated.

Entries in the Books. In most cases, the only entries required are the closure of the old share capital accounts, and the opening of new accounts to correspond with the revised capital. For example, a company has issued 100,000 Ordinary Shares of £1 each, and it decides to divide these shares into two classes, viz. 50,000 Preferred Ordinary Shares of £1 each (with prior rights as

to dividend and return of capital in a winding-up) and 50,000 Deferred Ordinary Shares of £1 each. The journal entry to record this re-arrangement will be as follows—

		£	£
	Ordinary Share Capital Account . *Dr.*	100,000	
	To Preferred Ordinary Share Capital A/c .		50,000
	„ Deferred Ordinary Share Capital A/c .		50,000
	being the division of the company's paid-up share capital into two classes in accordance with special resolution passed and confirmed on............19....		

Share Conversion List. The members' accounts in the Share Ledger for the Ordinary Shares are closed and new accounts opened for the Preferred and Deferred Ordinary Shares. To facilitate the entries in the new share ledgers and the exchange of the old share certificates for the new certificates, a share conversion list is compiled in the following or similar manner.

SHARE CONVERSION LIST

LEFT-HAND RULING.

Old Share Led. Fo.	Name		Address and Occupation	Old Ordinary Shares			
	Surname	Christian Name		Old Cert. No.	No. of Shares	Distinctive Numbers	
						From	To

RIGHT-HAND RULING.

New Preferred Ordinary Shares				New Share Led. Fo.	New Deferred Ordinary Shares				New Share Led. Fo.	Remarks
Cert. No.	No. of Shares	Distinctive Numbers			Cert. No.	No. of Shares	Distinctive Numbers			
		From	To				From	To		

The conversion of share capital into stock or vice versa, and other re-arrangements of capital are effected in a similar manner.

Exchange of Debentures for Shares. Sometimes, debentures are issued with the right, at the holder's option, of conversion into shares, but in such cases it is important to remember that although debentures may be issued at a discount, shares must be paid for in full, either in cash or some other consideration. It is only possible for shares to be issued at a discount, with the consent of the Court, consequently, unless that consent is obtained, if debentures are issued at the rate of £95 per £100 debentures, the maximum nominal value of shares that may be issued in exchange for a £100 debenture is £95. For example, assuming that £10,000 debentures are issued at £95, the entries required upon issue are indicated by the following Journal entry—

		£	£
	Cash . . . . *Dr.*	9,500	
	Debenture Discount Account . . *Dr.*	500	
	To Debenture Account. . . .		10,000
	being issue of £10,000 debentures at £95 per £100.		

The Debenture Discount Account is extinguished by successive transfers to the debit of Profit and Loss Account over a period of years, say, ten years or other period as may be arranged, according to the term or life of the debentures.

When the debentures are converted into shares, the difference between the nominal value of the shares allotted and the amount of the debentures surrendered may be utilized in extinguishing any debit balance of the Debenture Discount Account, or, if the latter account is closed, transferred to the credit of Premium on Shares Account.

If, at the end of, say, five years, the whole of the debentures in the foregoing example were converted into shares, and there was a debit balance of £250 in the Debenture Discount Account, the Journal entry to record the conversion will be—

		£	£
	Debenture Account. . . . . *Dr.*	10,000	
	To Share Capital Account . . .		9,500
	„ Debenture Discount Account . .		250
	„ Premium on Shares Account . .		250
	being conversion of £10,000 debentures into 9,500 shares of £1 each; shares allotted ....19.... (*vide* Minute Book).		

Further, a Debenture Conversion List, similar to the Share Conversion List shown on the previous page, will be prepared, the

accounts in the Register of Debenture Holders closed, and new accounts opened for each allottee in the Register of Members and Share Ledger.

QUESTIONS ON CHAPTER XVI

1. What are the principal forms under which limited companies may amalgamate their businesses? Discuss their principal features.
2. Explain how fractional parts of a share are dealt with in an amalgamation, reconstruction, or reorganization, etc.
3. Define a "Holding Company." What is the nature of the principal assets of a Holding Company?
4. Outline a scheme for "amalgamation by absorption."
5. How is a "controlling interest" in a company acquired?
6. Define the terms "Reconstruction" and "Reorganization." What is the distinctive difference between a reconstruction scheme and a reorganization scheme?

EXERCISE XVI

1. The Wynne Co., Ltd., and the Garde Co., Ltd., agree to amalgamate and to promote a new company, to be registered as the "Wyngarde Co., Ltd.," with a capital of £400,000 in £1 shares, to take over their respective undertakings. The balances in the books of the respective companies at the date of amalgamation were as follows:—

	Wynne Co.		Garde Co.	
	Dr.	*Cr.*	*Dr.*	*Cr.*
	£	£	£	£
Issued Capital—				
Wynne Co., 150,000 Shares of £1 each		150,000		
Garde Co. 100,000 " "				100,000
6 per cent Debentures		50,000		
Goodwill	25,000		12,000	
Land and Buildings	75,230		42,650	
Plant and Machinery	35,400		18,745	
Stock-in-Trade	42,676		26,520	
Sundry Creditors		35,628		19,958
Sundry Debtors	48,524		23,234	
Bills Receivable	15,620		4,257	
Balances at Bank	18,902		1,234	
Reserve		20,000		5,000
Profit and Loss Account		5,724		3,682
	£261,352	£261,352	£128,640	£128,640

The consideration for the sale of the respective undertakings to the new company is —

Wynne Co.: the allotment of 150,000 fully paid shares of £1 each, a payment of £30,000 in cash and the discharge of the debenture debt at a premium of 5 per cent.

Garde Co.: the allotment of 100,000 fully paid shares of £1 each, and the payment of £10,000 in cash.

The old companies each pay their liquidation expenses, which amount to £600 for the Wynne Co. and £450 for the Garde Co. The formation expenses of the new company amount to £1,260.

The new company makes a public issue of 100,000 shares to provide additional working capital; the issue is fully subscribed and paid for in full on allotment. Close the books of the old companies and open the new company's books, drafting the first Balance Sheet.

2. The Ess Co., Ltd., had an issued capital of £95,000 consisting of 50,000 Ordinary Shares of £1 each, fully paid, and 45,000 7 per cent Cumulative Preference Shares of £1 each, fully paid.

The Tee Co., Ltd., had an issued capital of £30,000 consisting of 30,000 Ordinary Shares of £1 each, fully paid.

These two companies (both Private Companies) decided to amalgamate their businesses, and for this purpose a holding company, called The Unit Co., Ltd., was registered on the 1st July, 19.., with a capital of £150,000 in £1 shares. This Company was to purchase all the Ordinary Shares of both the above companies. B., the Managing Director of the Ess Co., Ltd., and F., the Managing Director of the Tee Co., Ltd., each took up and paid for 1,500 shares.

The purchase was arranged on the following terms: The Shareholders of the Ess Co., Ltd., received one £1 share, fully paid, in the Unit Co., Ltd., in exchange for each of their Ordinary Shares. The Shareholders of the Tee Co., Ltd., received one and a half £1 shares, fully paid, in the Unit Co., Ltd., in exchange for each of their Ordinary Shares.

The expenses incidental to the formation of the Unit Co., Ltd., amounted to £2,000, and were paid out of cash.

Make the necessary entries in the books of the various companies to give effect to the arrangements outlined above, and draw up the opening Balance Sheet of the Unit Co., Ltd. (*London Association of Accountants.*)

3. With a view to reducing establishment expenses and generally to effect economy in working, the A Co., Ltd., was taken over by the B Co., Ltd., as from 1st January upon the following terms —

(i) The B Co., to assume the liabilities and take over the assets at book values.

(ii) The B Co. to discharge the debentures in A Co. at 105 % by the issue of new debentures at 6 % in the B Co.

(iii) The B Co. to pay the shareholders in A Co. 10s. per share, and to give three 10s. shares in the B Co. for every £1 share in the A Co. The 10s. shares were considered as being at par.

The following Balance Sheet of the A Co. was prepared as on 31st December, 19...

Liabilities	£	*Assets*	£
Nominal Capital: 50,000 shares of £1 each	50,000	Goodwill	35,000
		Freehold Land and Buildings	15,650
		Machinery and Plant	3,210
Issued: 47,500 shares of £1 each	47,500	Fixtures and Fittings	850
Five per cent Debentures	12,000	Sundry Debtors	10,990
Reserve Fund	15,000	Stock	4,660
Sundry Creditors	7,650	Investments	14,650
Profit and Loss Account, Balance at credit	4,960	Cash at Bank and in Hand	2,100
	£87,110		£87,110

Give the entries necessary to close off the books of the A Co., and show how the acquisition of the business would be recorded in the books of the B Co. (*Institute of Chartered Accountants.*)

4. The following was the Balance Sheet of the X Manufacturing Co., Ltd. (in which there were five shareholders with equal holdings), as on 31st December—

Liabilities	£	*Assets*	£
Nominal Capital: 20,000 Ordinary Shares of £1 each	20,000	Land and Buildings	2,300
		Plant and Machinery	2,108
		Furniture and Fittings	415
Issued: 18,000 Ordinary Shares of £1 each, fully paid	18,000	Stock	3,691
Sundry Creditors	5,674	Sundry Debtors	12,674
Reserve Fund	15,000	Investments	16,420
Profit and Loss Account, Balance at Credit	7,450	Cash at Bank	8,502
		Cash in hand	14
	£46,124		£46,124

It was decided to form a new Limited Company to take over the business as a going concern as on the above date, the new company bearing the same name, and having a nominal capital of £75,000 in ordinary shares of £1 each. The consideration for the sale of the business was 50,000 fully-paid shares in the new company, and the balance of the Profit and Loss Account in cash, the new company taking over all assets (as set out in the old company's Balance Sheet) with the exception of the investments; and undertaking to pay the sundry creditors and the liquidation expenses (estimated at £200), with the exception of £43 contributed by the old company.

The new company had fresh valuations made of the following assets, viz.:

Land and Buildings which were valued at £5,000;
Plant and Machinery „ „ £3,500; and
Furniture and Fittings „ „ £500

Draft the initial Balance Sheet of the new company as on 1st January. Give the entries necessary to close the books of the old company and state what each shareholder would receive. Investments were not realized, but were distributed *pro rata* to the shareholders. (*Institute of Chartered Accountants.*)

5. The Balance Sheets of the A. Co., Ltd., and the D Co., Ltd., at 31st December were as follows—

Liabilities	A. Co. £	D. Co. £	*Assets*	A. Co. £	D. Co. £
Ordinary Capital in £1 shares	50,000	20,000	Land and Buildings	40,000	
			Machinery	60,000	
Preference Do.	50,000		Patent Rights		20,000
Debentures	25,000	5,000	Debtors	20,000	5,000
Creditors	5,000	1,000	Investments	10,000	
Reserve	10,000		Bank	20,000	2,000
Profit and Loss Account, Balances at Credit	10,000	1,000			
	£150,000	£27,000		£150,000	£27,000

The Ordinary Shares of the A Co., Ltd., were quoted at 30s. per share, and the Preference Shares at par. They agreed to buy the Patent Rights of the D Co., Ltd., for £40,000, the book debts at their face value, and to give £10,000 for the goodwill. The consideration was to be the allotment of 20,000 Ordinary Shares and 25,000 Preference Shares—and the D Co., Ltd., was put into liquidation accordingly.

Make the necessary Journal entries in the books of the A Co., Ltd., and show the Balance Sheet after the purchase. (*Inst. of Chartered Accountants.*)

6. The following is the Balance Sheet of the Bailey Manufacturing Co., Ltd., on 30th June—

Liabilities	£	*Assets*	£
Isssued Capital 150,000 Ordinary Shares of £1 each	150,000	Goodwill	20,000
Mortgage	40,000	Freehold Land and Buildings	65,000
Creditors	20,000	Freehold Cottages	10,000
Bills Payable	6,000	Leasehold Property	5,000
Bank Overdraft	25,000	Plant and Machinery	50,000
Superannuation Fund	5,000	Loose Tools	7,000
Reserve for Income Tax	10,000	Fixtures and Fittings	10,000
„ „ C. P. Tax	1,750	Motor Vehicles	8,000
Reserve Account	10,000	Stock	40,250
Profit and Loss Account	20,000	Debtors	35,000
		Investments	12,000
		Suspense Account	11,500
		Inland Revenue Reclaim	14,000
	£287,750		£287,750

The Company decided to wind up and sell the assets to a Syndicate on the basis of the Balance Sheet, subject to the following increases—

Freehold Land and Buildings, 50% ; Freehold Cottages, 75% ; Plant and Machinery, 100% ; Stock, 100% ; Loose Tools, 100% ; Motor Vehicles, 25% ; Fixtures, 20%.

The leasehold property was taken over at face value ; the investments at the market price of the day, £10,000 ; the suspense and goodwill accounts at nil ; and the amount due from the Inland Revenue, £13,000. Five per cent Reserve was deducted from Debtors as a Reserve for bad debts. The liabilities were all taken over as they stood, except that shareholders were to receive a dividend of 10%, free of tax.

The Syndicate were to pay the members of the Bailey Co. by shares in a new company formed by the syndicate.

You are required to draw up a Balance Sheet, showing how the figures would appear in the Balance Sheet of the Syndicate and also state the amount of shares the members of the Bailey Co. would receive in the Syndicate for each £1 share in the Bailey Co. (*Incorporated Accountants.*)

CHAPTER XVII

MANUFACTURING ACCOUNTS, PERCENTAGE TRADING AND PROFIT AND LOSS ACCOUNTS, WORKING ACCOUNTS; COST BOOK MINING COMPANY

SINCE the manufacturing and selling departments of a business are kept separate, it is advisable that a manufacturer's accounts be divided in such a manner as to afford him the greatest possible information. Where only one commodity is being produced, a Manufacturing Account will serve a useful purpose; but where numerous articles are being manufactured that have little or nothing in common, a system of Cost Accounts must be designed, in order that the cost of each separate article may readily and accurately be ascertained.

MANUFACTURING ACCOUNT

Definition. A Manufacturing Account is an account drawn up to ascertain the prime cost of a commodity (or commodities) that has (or have) been manufactured. It deals, therefore, *only* with raw materials, the charges thereon, and *direct* manufacturing expenses such as productive wages. " Manufacturing Account " is a general designation, specific terms being in use in certain cases.

Prime Cost, Overhead, Cost of Production. These terms, when used by accountants, have not always the same signification. **Prime Cost** is generally taken to mean the cost of raw materials, *plus* charges thereon, *plus* productive wages. **Overhead** is a term used to denote all expenses consequent upon or incidental to production and distribution. These expenses, together with the "loading" or profit, are added to the prime cost in order to ascertain the selling price. Selling price is, therefore, prime cost + overhead + profit. In some cases, however, overhead is divided into two classes, factory and general. **Factory Overhead** includes all expenses directly or indirectly connected with production, viz. Rent, Rates and Taxes of factory; Motive Power, Gas, Fuel, Water, Lighting and Heating of factory; Patent Fees, Wayleaves, and Royalties on manufacture; Wages and Salaries of foremen, timekeepers, watchmen, etc.; Repairs, Renewals and Depreciation of Machinery, Tools, etc.; Interest on Capital outlay on Plant, Machinery, Tools, Land, and Buildings. **General Overhead** includes all selling, distribution, and administration expenses. In such cases, factory overhead forms part of the prime cost, or, as many accountants then prefer to call it, **cost of production.** Selling price is, therefore, cost of production (prime cost + factory overhead) + general overhead + profit.

For examination purposes—and it is a valuable practical method at the same time—it is advisable to prepare a manufacturing account on a strictly " prime cost " basis. The account would then be comprised of the following components of cost of manufacture only—

(*a*) Raw material.
(*b*) Carriage on raw material purchased.
(*c*) Manufacturing wages.

By limiting the items in a manufacturing account to those of first cost, it is possible to make a comparison of each year's gross profit on the basis of the turnover of the business. Prime cost bears a definite relation to turnover, i.e. as the volume of trade varies so also does prime cost; it inevitably moves in sympathy with turnover.

Overhead items do not so change. Fixed charges remain constant whatever turnover figures may be. For example, factory rent at £500 per annum will remain at that amount despite movement in the turnover of the business.

The object of the inclusion of overhead details in the cost of manufacture is to ensure that the selling price shall yield a sufficient margin of gross profit to cover all expenditure consequent upon, and incident to, the business of manufacture.

The only danger of "loading" the cost of manufacture with overhead details is that the resultant "sale price" may retard turnover. Under competitive conditions of modern commerce, the basis of cost, determining the sale price, must be so regulated that no barrier to turnover is raised. In any case, whatever items are included in the manufacturing account, a uniform method must be adopted if comparison of results is desired.

The following *pro forma* examples will serve to illustrate the subject—

Example 1.

MANUFACTURE ACCOUNT

Dr. (*a*) PRIME COST ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Stocks at start—				By Stocks at finish—			
Raw Materials . .	6,500	16	6	Raw Materials . .	5,025	12	3
Partly Manufactured Goods . . .	8,056	2	10	Partly Manufactured Goods . . .	10,350	11	7
" Purchases of Raw Materials . . .	22,520	5	8		15,376	3	10
" Freight and Carriage on Raw Materials .	425	14	3	" Balance (Prime Cost of Goods Manufactured) transferred to Account (*b*) . .	44,877	7	10
" Productive Wages .	22,750	12	5				
	£60,253	11	8		£60,253	11	8

Dr. (*b*) COST OF PRODUCTION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Prime Cost of Goods Manufactured as per Account (*a*) . .	44,877	7	10	By Proportion of Factory Overhead on Partly Manufactured Goods (£10,350 11s. 7d.) carried forward . .	1,850	9	4
„ Proportion of Factory Overhead on Partly Manufactured Goods (£8,056 2s. 10d.) brt. forward . .	1,575	12	4	„ Balance (Cost of Production of Goods Manufactured) carried to Trading Account .	53,455	3	4
„ Factory Overhead—							
Rent, Rates, Taxes, and Insurance .	1,200	11	6				
Gas, Fuel, Water, Lighting and Heating	1,250	4	9				
Patent Royalties .	325	10	6				
Wages and Salaries .	1,825	3	10				
Repairs, Renewals, and Depreciation of Tools and Machinery, etc.	1,750	5	4				
Interest on Capital Outlay in Plant and Machinery, Tools, Land and Buildings	2,500	16	7				
	£55,305	12	8		£55,305	12	8

Dr. TRADING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Stock of Manufactured Goods at start .	5,276	5	9	By Sales . £72,255 17 1 *Less* Returns 2,016 6 10	70,239	10	3
„ Manufacturing A/c— Cost of Goods manufactured as per Account (*b*) . .	53,455	3	4	„ Stock of Manufactured Goods at finish .	5,803	13	10
„ Balance (Gross Profit) .	17,311	15	-				
	£76,043	4	1		£76,043	4	1

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
				By Trading A/c . . .	17,311	15	-

The Manufacturing Account is sometimes made up in *one* account, and in a slightly different form, as follows—

Dr. **MANUFACTURING ACCOUNT** *Cr.*

		£	s.	d.		£	s.	d.
To Stocks at start—					By Amount transferred to Trading A/c (Cost of Goods Manufactured)	53,455	3	4
Raw Materials . .		6,500	16	6				
Partly Manufactured Goods		8,056	2	10				
„ Purchases of Raw Materials . . .		22,520	5	8				
		37,077	5	-				
Less Stocks at finish—								
Raw Materials .	£5,025 12 3							
Partly Manufactured Goods .	10,350 11 7	15,376	3	10				
		21,701	1	2				
To Carriage and Freight on Raw Materials .		425	14	3				
„ Manufacturing Wages .		22,750	12	5				
Prime Cost of Production .		44,877	7	10				
Add Factory Overhead .	£8,852 12 6							
+ Proportion on Partly Manufactured Goods b/f . .	1,575 12 4							
	10,428 4 10							
- Proportion on Partly Manufactured Goods c/f . .	1,850 9 4	8,577	15	6				
Factory Cost of Production .		£53,455	3	4		£53,455	3	4

Gross Profit or Loss on Production. In Example 1 it will be noticed that the goods produced have been transferred from the Manufacturing Account to the Trading Account *at cost price.* This is the usual practice, the theory being that the Manufacturing Department exists solely for the benefit of the Selling Department, and that the latter is, therefore, under an implied obligation to take over the factory output at actual cost, whether such cost be higher or lower than current trade prices. In such cases the Manufacturing Account will show neither profit nor loss. Many accountants contend against this practice, maintaining that the Manufacturing Department should be put on a business basis, i.e. that its output should be charged to the Selling Department *at current trade prices* irrespective of cost. In other words, the Selling Department

ought not to be placed at a disadvantage by having to take over goods at a price higher than that at which they could be actually purchased. Special allowance should also be made in the case of any of the goods manufactured not being readily marketable; otherwise, the factory profit on these goods is likely to remain an "anticipated" one. In these cases, the Manufacturing Account will show a balance, which will represent either profit or loss on production, and will be transferred to Profit and Loss Account. By this means it will be seen whether the Manufacturing Department is a profitable one; and if not, it can be closed down, unless cost of production can be lowered by strict supervision and economies to cheapen production. The gross profit or loss on production must not be confused with the gross profit or loss on sales, as the two are quite different. The following example, worked according to the above method, will show clearly the principles involved—

MANUFACTURING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Stocks at start— Raw Materials . .	6,500	16	6				
Partly Manufactured Goods . . .	8,056	2	10	By Trade Price of Goods manufactured, transferred to Trading A/c.	58,981	13	10
„ Purchase of Raw Materials . . .	22,520	5	8				
	37,077	5	-				
Less Stocks at finish Raw Materials . £5,025 12 3 Partly Manufactured Goods . 10,350 11 7	15,376	3	10				
	21,701	1	2				
To Carriage and Freight on Raw Materials .	425	14	3				
„ Manufacturing Wages .	22,750	12	5				
Prime Cost of Production .	44,877	7	10				
Add Factory Overhead . £8,852 12 6 + Proportion on Partly Manufactured Goods b/f . . 1,575 12 4 £10,428 4 10 - Proportion on Partly Manufactured Goods c/f . . 1,850 9 4	8,577	15	6				
Factory Cost of Production .	53,455	3	4				
To Balance (*Gross Profit on Production*) . .	5,526	10	6				
	£58,981	13	10		£58,981	13	10

TRADING ACCOUNT

Dr. *Cr.*

	£	s.	d.		£	s.	d.
To Stock of Manufactured Goods at start . .	5,276	5	9	By Sales . £72,255 17 1 *Less* Returns 2,016 6 10	70,239	10	3
„ Manufacturing A/c (Trade Price of Goods produced) . . .	58,981	13	10				
	64,257	19	7				
Less Stock of Manufactured Goods at finish . .	5,803	13	10				
Prime Cost of Sales . .	58,454	5	9				
To Balance (*Gross Profit on Sales*) . . .	11,785	4	6				
	£70,239	10	3		£70,239	10	3

PROFIT AND LOSS ACCOUNT

Dr. *Cr.*

	£	s.	d.		£	s.	d.
				By Manufacturing A/c .	5,526	10	6
				„ Trading A/c . .	11,785	4	6
					£17,311	15	–

Example 2. From the following particulars prepare Manufacturing Account (showing cost of pig iron produced), and Trading Account for the year ended 31st December—

	£	s.	d.
Stocks at 1st January—			
Pig Iron	28,401	16	8
Limestone	301	16	9
Coal and Coke	1,729	15	5
Iron Ore	1,628	10	4
Purchases during Year—			
Coal and Coke	29,173	14	2
Limestone	4,016	2	11
Iron Ore	16,415	11	2
Sales of Pig Iron during year	102,617	13	6
Expenses during the year—			
Furnace Wages	9,266	10	8
Carriage Inwards	2,427	9	5
Repairs and Renewals of Furnaces . .	2,906	14	2
Stocks at 31st December—			
Pig Iron	38,153	12	8
Limestone	415	6	7
Coal and Coke	1,841	11	3
Iron Ore	1,841	11	5

It must first be ascertained how much of each kind of raw material has been used in the manufacture of pig iron. This information

is obtained from the Ledger Account of each raw material, as follows—

Dr. IRON ORE *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan. 1	To Balance	1,628	10	4	Dec. 31	By Stock c/d	1,841	11	5
Jan.-Dec.	„ Purchases	16,415	11	2	31	„ Balance (amount used) transferred to Manufacturing Account	16,202	10	1
		£18,044	1	6			£18,044	1	6
19..									
Jan. 1	To Balance b/d	1,841	11	5					

Dr. LIMESTONE *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan. 1	To Balance	301	16	9	Dec. 31	By Stock c/d	415	6	7
Jan.-Dec.	„ Purchases	4,016	2	11	31	„ Balance (Amount used transferred to Manufacturing Account	3,902	13	1
		£4,317	19	8			£4,317	19	8
19..									
Jan. 1	To Balance b/d	415	6	7					

Dr. COAL AND COKE *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan. 1	To Balance	1,729	15	5	Dec. 31	By Stock c/d	1,841	11	3
Jan.-Dec.	„ Purchases	29,173	14	2	31	„ Balance (Amount used) transferred to Manufacturing Account	29,061	18	4
		£30,903	9	7			£30,903	9	7
19..									
Jan. 1	To Balance b/d	1,841	11	3					

It is now possible to construct the Manufacturing and Trading Accounts, which are as follows—

Dr. MANUFACTURING ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Dec. 31	To Amounts Consumed—				Dec. 31	By Transfer to Trading A/c (Cost of Pig Iron produced)	63,767	15	9
	Iron Ore	16,202	10	1					
	Limestone	3,902	13	1					
	Coal and Coke	29,061	18	4					
	„ Furnace Wages	9,266	10	8					
	„ Carriage Inwards	2,427	9	5					
	„ Repairs and Renewals of Furnaces	2,906	14	2					
		£63,767	15	9			£63,767	15	9

TRADING ACCOUNT

Dr.		£	s.	d.	Cr.		£	s.	d.
19..					19..				
Jan. 1	To Stock of Pig Iron .	28,401	16	8	Dec. 31	By Sales of Pig Iron .	102,617	13	6
Dec. 31	„ Amount transferred from Manufacturing A/c (Cost of Pig Iron produced) . .	63,767	15	9	„ 31	„ Stock of Pig Iron .	38,153	12	8
„ 31	„ Balance (Gross Profit) . .	48,601	13	9					
		£140,771	6	2			£140,771	6	2

The Manufacturing Account may be drawn up in tabular form, as on the next page.

Sub-Manufacturing Accounts. As previously mentioned, the title " Manufacturing Account " is only a general description. In many businesses sub-manufacturing accounts are prepared, being designated by the name of their particular process or stage of manufacture.

Example 3.

EXCELSIOR COTTON MILLS, LTD.

SPINNING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. Cr.

	£	s.	d.		£	s.	d.
To Cotton	87,352	3	2	By Sale of—			
„ Brokerage, Charges, etc.	303	18	6	Yarns . . .	6,985	14	2
„ Freight and Carriage .	1,315	3	2	Waste . . .	2,750	10	5
„ Wages and Salaries .	18,116	5	9	Sundries . . .	401	17	8
„ Coals	2,068	15	5	„ Balance—transferred to Trading A/c . .	106,022	14	10
„ Oil, Tallow, etc. . .	326	9	6				
„ Gas, Electric Light, and Water . . .	295	14	11				
„ Cards, Ropes, Roller Leather and Cloth .	804	15	7				
„ Skips, Bobbins, and Skewers . . .	215	16	4				
„ Brushes, Starch, and Banding . . .	317	12	8				
„ Strapping and Laces .	142	6	7				
„ Packing, Paper, and Twine . . .	328	3	11				
„ Rates, Taxes, and Insurance . . .	471	13	2				
„ Mill Charges and Sundry Stores . . .	227	10	5				
„ Horse and Stable Expenses . . .	274	5	11				
„ Repairs to Buildings, Engines, Boilers, Gearing, etc. . . .	1,365	12	8				
„ Depreciation of Plant and Machinery . .	2,234	9	5				
£	116,160	17	1	£	116,160	17	1

MANUFACTURING ACCOUNT

Dr. **For the Year Ending 31st December, 19..** *Cr.*

	Iron Ore			Limestone			Coal and Coke			Total						
To Production—	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.
Stocks, 1st January .	1,628	10	4	301	16	9	1,729	15	5				By Transfer to Trading Account (Cost of Pig Iron produced) . .	63,767	15	9
Add Purchases . .	16,415	11	2	4,016	2	11	29,173	14	2							
	18,044	1	6	4,317	19	8	30,903	9	7							
Less Stocks, 31st Dec.	1,841	11	5	415	6	7	1,841	11	3							
Materials Consumed .	16,202	10	1	3,902	13	1	29,061	18	4	49,167	1	6				
„ Carriage Inwards . .										2,427	9	5				
„ Furnace Wages . .										9,266	10	8				
„ Repairs and Renewals of Furnaces . . .										2,906	14	2				
										£ 63,767	15	9		£ 63,767	15	9

Note. Other terms for the above Account are: " Furnaces Account," " Working Account," " Pig Iron Production Account."

WEAVING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Purchase of Yarns, etc.	4,027	3	10	By Sale of Waste	127	13	2
„ Freight and Carriage	795	13	6	„ „ Sundries	98	14	5
„ Wages and Salaries	29,650	7	4	„ Balance—Transfer to Trading A/c	41,545	18	5
„ Coals	1,058	13	6				
„ Tallows, Oils, Waste, etc.	185	11	4				
„ Gas, Electric Light, and Water	138	7	5				
„ Shuttles, Pickers, Picking Bands, etc.	516	8	3				
„ Reeds, Combs, and Healds	325	11	9				
„ Brushes and Sundries	99	15	2				
„ Strapping and Laces	87	16	7				
„ Skips, Bobbins, and Skewers	107	4	5				
„ Flour and Sizing Materials	1,628	5	10				
„ Rates, Taxes, and Insurance	245	9	2				
„ Mill Charges and Sundry Stores	206	5	4				
„ Horse and Stable Expenses	97	11	3				
„ Repairs to Buildings, Engines, Boilers, Gearing, etc.	495	6	9				
„ Depreciation of Plant and Machinery	2,106	14	7				
	£41,772	6	–		£41,772	6	–

TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Stocks of Cloth, 1st Jan.— At Mills £41,306 18 5; At Warehouse 72,617 1 8; At Bleachers and Dyers 8,340 1 3	122,264	1	4	By Sales of Cloth— Grey . £60,516 14 2; White . 162,726 13 8; Dyed . 13,087 3 5	236,330	11	3
„ Goods purchased	8,716	12	8	„ Sales of Bought Goods	9,916	13	8
„ Bleaching, Dyeing, and Printing	28,502	3	11	„ Stocks of Cloth, 31st Dec.— At Mills £40,598 12 7; At Warehouse . 74,503 2 5; At Bleachers and Dyers 10,404 1 3	125,505	16	3
„ Carriage	345	13	9				
„ Packing	265	14	6				
„ Spinning A/c amount trans. . £106,022 14 10; „ Weaving A/c—amount trans. . 41,545 18 5	147,568	13	3				
„ Balance (Gross Profit)	64,090	1	9				
£	371,753	1	2	£	371,753	1	2

Discounts on Purchases. In accounts such as the foregoing Spinning and Weaving Accounts, and also in others, the Discounts on Purchases are often credited to the Manufacturing Department, or, if there is more than one, apportioned between them. Such

discounts are in effect a reduction of the Purchases to the absolute *net* figures, and hence appear in the Manufacturing Account either as a separate credit or as a deduction from the Purchases themselves.

Combined Manufacturing and Trading Account. In some cases, the Manufacturing and Trading Accounts are merged into one account under the heading of either "Manufacturing and Trading Account" or simply "Manufacturing Account," the balance of which is called the gross profit, and is transferred to the Profit and Loss Acccount. In such cases, Depreciation of Plant will be entered in the Manufacturing Account instead of in the Profit and Loss Account.

Example 4.

THE OUTHORN BRICK WORKS, LIMITED

MANUFACTURING AND TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Coal Consumed	1,645	19	6	By Stock of Bricks,			
„ Stores Consumed	287	4	10	31st Dec. £673 14 8			
„ Rations	796	13	2	„ Brick Sales			
„ Wages	2,851	10	6	for year 9,506 10 5			
„ Stable Expenses	10	5	4				
„ Rent	150	–	–	10,180 5 1			
„ Carriage Inwards	463	9	8	*Less*			
„ Repairs and Renewals	257	16	7	Stock of Bricks,			
„ Medical Fees	10	10	–	1st Jan. 957 1 2			
„ Depreciation—					9,223	3	11
Plant £93 4 8							
Machinery 187 13 6							
Kilns 216 9 11							
Pumping Plant 10 7 2							
Railway Siding 14 15 4							
	522	10	7				
„ Balance (Gross Profit)	2,227	3	9				
	£9,223	3	11		£9,223	3	11

TRADING AND PROFIT AND LOSS ACCOUNTS, PERCENTAGES

Indispensable as is the ascertaining of the exact cost of production to the manufacturer, not less important and essential, to both the manufacturer and the trader, is the knowledge of the ratio which such cost and the various expenses bear to the turnover. Cost must be definitely known in order to be able to fix, with any degree of certainty, a remunerative selling price for goods. Where the trader has past records of the exact percentage that each item of expense bears to the turnover, he is in a vastly improved position for tendering for applicants' and advertisers' requirements than if he had not that information. Estimates have to be given which, owing to the severe competition of the present day, must necessarily be as low as possible; and though the prices have

to be cut very fine, yet they must be such as to leave the manufacturer or trader a definite margin of profit.

Advantages of Percentages. It will be obvious to the student that, in order to compare things that have no apparent points of resemblance, there must first be some common basis. A familiar illustration from arithmetic will make this point clear. The student is asked to compare the following fractions—

$$\tfrac{4}{217} \quad \tfrac{3}{124} \quad \tfrac{2}{93} \text{ and } \tfrac{1}{31}.$$

In their present form a real comparison is impossible; but when reduced to a common denominator the following is the result—

$$\tfrac{48}{2604} \quad \tfrac{63}{2604} \quad \tfrac{56}{2604} \quad \tfrac{84}{2604}.$$

It is now seen that the first fraction is the smallest and the last fraction the greatest—a conclusion impossible to ascertain when they stood in their original form. Now apply the illustration to the subject under consideration. Conclusions drawn from a prima facie inspection of £ s. d. figures may be very misleading. If asked to compare the first two years' trading results of a merchant, which are as follows—

1st Year	*2nd Year*
Turnover, £20,000;	Turnover, £25,000;
Gross Profit, £4,500.	Gross Profit, £5,000;

it would be feasible that the second year's result might be viewed as the more satisfactory, and for two reasons: (1) because there was a larger turnover, (2) because there was an increased gross profit. The reasons seem plausible enough. Reduce these two profits to a common basis, i.e. reduce each profit to its relative percentage of turnover, and the following results prove the case otherwise—

1st Year	*2nd Year*
Percentage of Gross Profit on Turnover	Percentage of Gross Profit on Turnover
$= \dfrac{4500 \times 100}{20{,}000}$	$= \dfrac{5000 \times 100}{25{,}000}$
$= 22\tfrac{1}{2}$ per cent.	$= 20$ per cent.

It can now easily be seen that the prima facie conclusion, that the second year was the better one, is to some extent false. Notwithstanding the fact that the turnover was *larger* and the gross profit *increased*, yet the *rate of gross profit* has actually *decreased* by $2\tfrac{1}{2}$ per cent. This must have been due to more having been paid for the goods, or the goods have not been sold to so good an advantage in the second year as in the first.

Prime Cost of Goods Sold. When looking at a Trading Account prepared in the ordinary form, it appears difficult to arrive at the cost value of the goods actually sold, owing to the difference in the stocks. If the stocks at commencement and close of the trading

period were exactly the same, they could be ignored; one would balance the other, and they would not affect the calculation. But, when the opening and closing stocks differ by a considerable sum the difference must be taken into consideration. A moment's reflection, however, will show that the stocks can quite properly be merged in the purchases. Stock at the commencement is really *last* year's purchases unsold; stock at the end is really *this* year's purchases unsold. The Trading Account is, therefore, prepared in a slightly different form. The initial stock is added to the purchases, and the final stock deducted from them, and thus we arrive at the prime cost of the goods actually sold during the trading period under review.

Turnover. Generally, the value of the turnover is obtained by taking the gross Sales and deducting therefrom the Sales Returns. In some businesses, however, Work in Progress appears in the Trading Accounts. In such cases, if it is desired to adopt the percentage method, the Work in Progress at the end must be *added* to the Sales, and the Work in Progress at the commencement *deducted* from them, in order to arrive at the correct value of the turnover for the period.

Output (or Production). The value of the output (or production) in a productive business is arrived at as follows—

	£	s.	d.
Sales of Finished Goods (say)	38,753	16	11
Add Stock at end	5,427	18	5
	£44,181	15	4
Less Stock at commencement	4,916	12	10
Value of Output	£39,265	2	6

Example. From the following particulars prepare Trading and Profit and Loss Accounts showing percentages of gross and net profit and expenses on turnover—

	£	s.	d.
Stock, 1st January	7,126	4	11
Purchases, *less* Returns	11,126	14	5
Sales *less* Returns	21,627	16	2
Salaries	497	2	10
Commission	316	13	8
Wages	3,167	12	5
Advertising	308	5	6
Discount *Dr.*	372	11	5
Carriage Inwards	816	4	3
Rent, Rates, and Taxes	362	17	9
Carriage Outwards	316	12	10
Trade Expenses	398	16	2
Bad Debts	318	5	3
Depreciation	372	14	7
Interest on Capital	230	15	3
Stock, 31st December	7,584	14	6

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

	Per ct. on Sales	£	s.	d.		Per ct. on Sales	£	s.	d.
To Stock, 1st Jan.		7,126	4	11	By Sales (net)	100.00	21,627	16	2
" Purchases (net)		11,126	14	5					
		18,252	19	4					
Less Stock, 31st Dec.		7,584	14	6					
Prime Cost of Sales	49.32	10,668	4	10					
" Carriage Inwards	3.77	816	4	3					
" Wages	14.65	3,167	12	5					
" Balance (Gross Profit)	32.26	6,975	14	8					
	100.00	21,627	16	2		100.00	21,627	16	2
To Salaries	2.30	497	2	10	By Gross Profit b/d	32.26	6,975	14	8
" Commission	1.46	316	13	8					
" Advertising	1.43	308	5	6					
" Discount	1.72	372	11	5					
" Rent, Rates, and Taxes	1.68	362	17	9					
" Carriage Outwards	1.46	316	12	10					
" Trade Expenses	1.85	398	16	2					
" Bad Debts	1.47	318	5	3					
" Depreciation	1.72	372	14	7					
" Interest on Capital	1.07	230	15	3					
" Balance (net profit)	16.10	3,480	19	5					
	32.26	£6,975	14	8		32.26	£6,975	14	8

WORKING ACCOUNTS

Definition. A Working Account is an account drawn up to ascertain the working, or gross, profit arising from some industrial enterprise, either productive or non-productive. In productive enterprises, such as mines, quarries, plantations, newspapers, etc., a Working Account corresponds very closely to the Cost of Production Account of a manufacturer. In non-productive enterprises, such as canals, steamships, railways, hotels, etc., a Working Account is similar to a Revenue Account or Income and Expenditure Account, and, sometimes, also to a Trading Account. The term "Working Account" is merely a general designation, specific titles being in use in certain cases.

It is impossible to be exhaustive, but the following selected examples will amply repay the student's careful attention.

Example No. 2 is also called a "Crop Cost Account." Similar accounts are drawn up on tea, coffee, cocoa, cotton, and rubber plantations.

Example 1—

THE WETTER GOLD MINING COMPANY, LTD.

MINE WORKING ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
To Ore Extraction—				By Bullion A/c . .	257,356	14	6
Expenses of Mining .	43,278	9	2	„ Tailings A/c . .	2,306	4	10
„ Reduction of Ore—							
Milling . . .	17,605	13	7				
Concentrating . .	10,987	6	8				
Cyaniding . .	45,703	12	10				
Tramming . .	5,196	8	3				
„ Concession Rents paid .	700	–	–				
„ Royalties paid . .	3,617	16	5				
„ Prospecting Expenses .	1,134	2	6				
„ Claim Expenses . .	1,856	11	9				
„ Wages at Mine . .	4,178	13	6				
„ General Charges at Mine	2,615	4	11				
„ Mint and Bank Charges on Bullion . .	1,562	10	4				
„ Depreciation of Works, Machinery, and Plant	5,956	13	7				
„ Balance (Gross Profit) .	115,269	15	10				
£	259,662	19	4	£	259,662	19	4

Example 2—

REVALLA TOBACCO PLANTATIONS, LTD.

PLANTATION WORKING ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
To Plantation Wages—				By Proceeds of Sale of Tobacco . .	62,916	15	3
Planting . . .	13,308	15	5				
Manufacturing . .	4,622	3	6				
„ Plantation Salaries—							
European Staff . .	7,234	6	7				
Native Overseers .	2,138	5	8				
Native Watchmen .	942	13	6				
„ Coolie Expenses (Brokerage, Passage Money, etc.)	3,024	2	11				
„ Hospital Working Expenses	1,035	13	5				
„ Transport Expenses .	1,041	5	3				
„ General Plantation Expenses	1,017	4	8				
„ Stable Expenses . .	625	8	6				
„ Loss (by death) of Advances to Coolies .	540	3	6				
„ Wastage of Live Stock (Ponies, Bullocks, etc.)	526	12	4				
„ Commission on Sale of Tobacco . .	3,316	9	2				
„ Repairs, Renewals, and Depreciation—							
Railway . . .	156	8	3				
Steam Launch, Lighters, etc. . .	391	15	1				
Loose Tools . .	350	10	4				
Pier, Wharf, etc. .	284	9	5				
Ways, Roads, etc. .	1,430	11	2				
Buildings, etc. . .	3,608	15	4				
„ Balance (Gross Profit) .	17,321	1	3				
	£62,916	15	3		£62,916	15	3

Example 3—

THE "DAILY BUGLE" NEWSPAPER COMPANY, LTD.

PRODUCTION ACCOUNT

Dr.	£	s.	d.		£	s.	d. Cr.
To Paper used	8,657	14	3	By Sales—Cash	716	15	4
„ Ink used	506	10	8	„ Sale to Agents, *less* Discounts and Returns	15,327	10	3
„ Compositors' and Machining Wages	4,316	17	6	„ Sales to Subscribers, *less* Postages & Wrappers	2,237	18	6
„ Cost of Literary Contributions	1,026	3	6		18,282	4	1
„ Reporters' and Office Salaries	4,856	13	6	„ Advertisements	18,756	12	10
„ Editors' Salarics	1,500	–	–	„ Sales of Waste Paper	226	13	8
„ Newsagency Telegrams	255	8	2	„ Jobbing Printing Sales	88	14	8
„ Petty Expenses	65	15	7				
„ Gas, Electric Current, and Fuel	506	10	8				
„ Repairs and Renewals	320	9	4				
„ Depreciation of Machinery, Plant, and Stereos	245	10	–				
„ Depreciation of Linotype Installation	75	–	–				
„ Rates, Taxes, and Insurance of Works	164	8	6				
„ Balance (Gross Profit)	14,857	3	7				
	£37,354	5	3		£37,354	5	3

Accounts similar to the above are also drawn up in Trading and Profit and Loss Account form.

Example 4—

THE ELBURY STEAM TRAWLER COMPANY

WORKING ACCOUNT

Dr.	£	s.	d.		£	s.	d. Cr.
To Coal and Oil	156	17	4	By Sales of Fish	1,036	15	8
„ Repairs and Renewals	85	14	3	„ Sale of Old Rope, etc.	1	6	10
„ Landing Dues	12	5	6				
„ Harbour Dues	10	3	7				
„ Wages—General	156	4	8				
„ do. Fishermen	163	12	4				
„ do. Casual Labour	22	10	6				
„ Commission	20	–	–				
„ Ropes, Stores, etc.	53	2	10				
„ Net Braiding, Mending, and Tarring	16	19	5				
„ Carpentering	14	3	6				
„ Painting	12	9	2				
„ Salvage Claims	23	14	6				
„ Balance (Gross Profit)	290	4	11				
	£1,038	2	6		£1,038	2	6

Accounts similar to the above are sometimes drawn up in Revenue Account form, also in Trading and Profit and Loss Account form.

Example 5—

LEEKLEY CANAL COMPANY

WORKING ACCOUNT

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Maintenance, Dredging, and Ice-breaking .	3,617	14	2	By Toll Traffic Receipts .	7,516	13	8
,, Rents Payable . .	2,016	3	6	,, Freight ,, ,, .	14,608	5	10
,, Rates, Taxes, and Insurance . . .	1,426	16	3		22,124	19	6
,, General Charges . .	1,319	2	9	*Less* Traffic Expenses	12,016	14	3
,, Depreciation of Boats, Horses, and Carrying Plant	896	8	10	Net Traffic Receipts .	10,108	5	3
,, Balance (Gross Profit) .	4,774	18	1	,, Rents Receivable .	3,856	13	6
				,, Miscellaneous Receipts .	86	4	10
	£14,051	3	7		£14,051	3	7

Accounts similar to the above are sometimes drawn up in Income and Expenditure Account form, also in Revenue Account and Net Revenue Account form.

Example 6—

OCEAN NAVIGATION COMPANY, LTD.

WORKING ACCOUNT

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Navigation Expenses—				By Passage Money . .	1,096,520	10	6
Coal, Oil, and Water .	655,000	5	11	,, Freight, Charters, and Miscellaneous Services.	1,484,201	5	3
Dues, Towage, Pilotage, etc.	184,620	2	6	,, Government Contract Services—India, China, Australia . . .	285,000	-	-
Pay of Officers and Crew	316,680	15	6	,, Compensation from Argentine Government for seizure of s.s. *Eastern Star* . . .	12,000	-	-
,, Provisioning of Passengers, Officers and Crew	305,027	13	4				
,, Suez Canal Dues . .	326,156	12	9				
,, Miscellaneous Expenses—							
Damages, Claims, and Law Charges . .	15,000	-	-				
Expenses of Steamers laid up . . .	10,626	16	8				
Quarantine Charges .	1,950	15	6				
,, Ships' Repairs, Stores, and General Maintenance Charges . .	176,320	4	8				
,, Insurance Charges and General Average Claims	20,627	10	6				
,, Depreciation of Fleet, etc.	345,000	-	-				
,, Balance (Gross Profit) .	520,710	18	5				
£	2,877,721	15	9	£	2,877,721	15	9

Accounts similar to the above are sometimes drawn up in Trading and Profit and Loss Account form.

Example 7—

THE "NORMLEY" HOTEL, LTD.

Dr. WORKING ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Consumption of—				By Amounts charged to Customers—			
Groceries and Provisions	4,670	12	8	Groceries and Provisions	6,763	10	6
Wines, Spirits, and Liqueurs . . .	4,356	7	3	Wines, Spirits, and Liqueurs . . .	6,857	12	8
Ale, Beer, and Minerals	2,017	8	4	Ale, Beer, and Minerals	3,169	14	9
Tobacco, Cigars, and Cigarettes . . .	1,156	16	5	Tobacco, Cigars, Cigarettes . . .	1,654	3	10
Sundry Stores . .	275	10	9	Apartments, Attendance, and Baths .	12,079	5	6
" Wages and Salaries .	5,230	7	6	" Bar Receipts . .	1,168	19	4
" Licences and Insurances	1,036	5	9	" Billiard Room Receipts .	512	11	7
" Newspapers, Magazines, Printing, & Stationery	327	13	4	" Stable and Garage Receipts . . .	308	10	5
" Coals, Gas, and Lighting	673	12	10				
" Repairs and Renewals of Buildings . .	237	14	6				
" Laundry . . .	365	10	2				
" Stable and Garage Expenses . . .	256	7	5				
" Rent, Rates, and Taxes	1,265	10	6				
" Repairs, Renewals, and Depreciation—							
Furniture and Fittings	321	16	4				
Cutlery and Plate .	186	15	6				
House, Bed, and Table Linen . . .	126	13	8				
China and Glass .	147	4	3				
" Balance (Gross Profit) .	9,862	1	5				
	£32,514	8	7		£32,514	8	7

Accounts similar to the above are also prepared in Trading and Profit and Loss Account form.

COST BOOK MINING COMPANY

Definition. A Cost Book Mining Company is one formed for the purpose of working tin mines in Devon and Cornwall. It is governed by the Stannaries Acts, 1869 and 1887, (Latin, *stannum* = tin). A company is formed by a certain number of persons taking shares. A principal agent or secretary is appointed, called in the Acts a "purser," who manages the affairs of the mine. A Cost Book Mining Company is not a partnership within the meaning of the Partnership Act, 1890, nor a joint stock company within the meaning of the Companies Act; it seems to occupy an intermediate position.

Statutory Requirements. The purser must keep a Cost Book, and enter therein the names and addresses of the shareholders, the number of shares held by them, and the amount paid up thereon. In the same book, he must also record the minutes of all meetings, and enter all receipts and payments and liabilities. Every sixteen weeks (at least) the purser must convene an ordinary meeting of the shareholders to transact the business of the mine. The accounts must be laid before the shareholders, who, if a profit has been

made, declare a dividend. After the meeting, the accounts must be printed, and a copy sent to each shareholder, and also to the lessors of the mine.

Calls, Forfeiture, and Relinquishing of Shares. By section 11 of the 1869 Act, a company may make a call for the purpose of defraying the whole or any portion of the estimated expenses to be incurred. It may allow discount, not exceeding 5 per cent, for prompt payment of the call; it may charge interest at 5 per cent and expenses on calls in arrear; and it may also forfeit shares for non-payment of calls. Shares may also be relinquished or transferred by the shareholder paying to the purser his share of the liabilities to date. Shares forfeited must be carried to an account to be called "The Account of Forfeited Shares"; and shares relinquished must be carried to an account to be called "The Account of Relinquished Shares." Forfeited and relinquished shares become the absolute property of the company, which may dispose of them as it thinks fit. Shares transferred must also be recorded in the Cost Book.

Mine Club Fund. By the Stannaries Act, 1887, section 13—

All moneys deducted in any mine from the wages or earnings of or otherwise contributed by the miners for the purposes of a mine club, or accident, or sick or benefit fund, shall, unless a majority of the miners shall by resolution decide otherwise, be deemed to belong to the miners and not to the company, and the said moneys, and any contributions added thereto by the shareholders, shall be placed to a separate account, and the details thereof, showing the amount received and the several payments thereout, and to whom made during each preceding sixteen weeks, shall be sent out in the balance sheet to be presented to the shareholders at each ordinary meeting; and a copy of the same shall be posted in the miner's dry or changing sheds, and in the account house. . . . . .

QUESTIONS ON CHAPTER XVII

1. What is a Manufacturing Account? With what items does it deal?
2. Explain the meaning of the terms "prime cost" and "cost of production."
3. What is meant by "overhead"? What are its two usual divisions?
4. What expenditure is included under (*a*) factory overhead, (*b*) general overhead?
5. At what price should goods manufactured in one's own factory be charged to the Selling Department? What different views are there on this point?
6. What is meant by a sub-Manufacturing Account, and when is such an account used?
7. What is the object of "percentage" Trading and Profit and Loss Accounts? What advantages do they offer?
8. How can we arrive at the prime cost of the goods actually sold during a certain period, when the Stock at commencement and finish thereof differs by a considerable amount? How are the values of the turnover and output arrived at when there is Work in Progress at start and finish of the trading period?
9. Define the term Working Account. To what other forms of accounts are Working Accounts in many cases similar?

10. What is a Cost Book Mining Company? Explain the terms "purser," "Stannaries Acts," "forfeited shares," "relinquished shares," "mine club fund." What are the statutory requirements with reference to the keeping of accounts?

EXERCISE XVII

1. From the following particulars draw up in both forms a Manufacturing Account and a Trading Account, and carry the balances in each case to a Profit and Loss Account—

Stocks, 1st Jan.—			
Raw Materials	£6,273	11	4
Partly Manufactured Goods	7,985	12	6
Oncost on above	1,396	18	5
Finished Goods	5,674	13	9
Stocks, 31st Dec.—			
Raw Materials	4,916	13	2
Partly Manufactured Goods	10,408	16	5
Oncost on above	1,742	13	6
Finished Goods	5,509	10	6
Purchases of Raw Materials	22,437	16	3
Freight and Carriage on above	459	3	8
Productive Wages	22,587	18	2
Factory Oncost—			
Rent, Rates, Taxes, and Insurance	1,312	12	5
Gas, Fuel, Water, Lighting, and Heating	1,198	13	6
Patent Royalties	306	5	9
Wages and Salaries	1,910	10	3
Repairs, Renewals, and Depreciation of Tools, Machinery, etc.	1,806	17	8
Interest on Capital Outlay on Plant and Machinery, Tools, Land, and Buildings	2,485	9	4
Sales	73,086	14	2
Sales Returns	2,378	12	7

The trade price of the goods manufactured was £58,472 1s. 8d.

2. From the following particulars prepare Manufacturing Account (showing cost of pig iron produced) and Trading Account for the year ended 31st Dec. —

Stocks, 1st Jan.—			
Pig Iron	£29,642	16	7
Limestone	402	10	11
Coal and Coke	1,846	12	9
Iron Ore	1,725	9	6
Purchases during Year—			
Coal and Coke	28,607	10	5
Limestone	3,743	12	10
Iron Ore	17,028	6	4
Sales of Pig Iron during year	123,350	11	8
Expenses during year—			
Furnace Wages	8,845	3	11
Carriage Inwards	2,516	10	3
Carriage Outwards	3,308	12	6
Repairs and Renewals of Furnaces	2,847	13	5
Stocks at 31st Dec.—			
Pig Iron	37,858	11	6
Limestone	383	13	4
Coal and Coke	1,916	12	5
Iron Ore	1,732	6	8

3. **From the following particulars prepare (*a*) Spinning Account, (*b*) Weaving Account, (*c*) Trading Account for the year ended 31st Dec. —**

	Spinning Dept.			Weaving Dept.		
Cotton	£82,616	10	5	——		
Purchase of Yarns, etc.	——			£4,106	12	5
Brokerage Charges, etc.	297	13	8	——		
Freight and Carriage	1,187	12	9	763	14	9
Wages and Salaries	17,802	15	4	28,780	15	6
Coals	1,987	11	5	1,127	14	11
Oil, Tallow, Waste, etc.	306	14	8	165	2	9
Gas, Electric Light, and Water	265	10	3	128	16	7
Cards, Ropes, Roller, Leather, and Cloth	786	2	10	——		
Skips, Bobbins, and Skewers	208	10	6	114	3	6
Brushes, Starch, and Binding	286	14	7	——		
Strapping and Laces	121	16	9	96	12	3
Packing, Paper, and Twine	297	3	8	——		
Rates, Taxes, and Insurance	436	3	10	226	13	4
Mill Charges and Sundry Stores	206	14	8	197	10	5
Horse and Stable Expenses	187	6	7	112	4	10
Repairs to Buildings, Engines, Boilers, Gearing, etc.	1,287	14	6	478	13	6
Depreciation of Plant and Machinery	2,206	15	2	2,087	19	5
Sale of Yarns	6,816	12	9	——		
„ „ Waste	2,632	5	11	136	15	2
„ „ Sundries	89	14	7	95	6	8
Shuttles, Pickers, Picking Bands, etc.	——			538	10	8
Reeds, Combs, and Healds	——			309	14	6
Brushes and Sundries	——			105	3	10
Flour and Sizing Materials	——			1,594	11	7
Stocks of Cloth —						
	1st Jan.			31st Dec.		
At Mills	£40,785	10	2	£40,753	2	10
At Warehouse	75,016	11	6	76,017	14	8
At Bleachers and Dyers	9,528	16	8	8,426	11	9
Goods purchased				£8,675	10	3
Bleaching, Dyeing, and Printing				28,487	11	5
Carriage				339	16	7
Packing				273	14	8
Sales of Cloth —						
Grey				61,728	15	6
White				160,906	14	11
Dyed				12,614	13	8
Sales of Bought Goods				9,427	13	6

4. From the following particulars of the "Newbell" Brickworks, prepare a combined Manufacturing and Trading Account for the year ended 31st Dec.—

Coal consumed, £1,897 15s. 2d.; Stores consumed, £256 7s. 9d.; Rations, £763 2s. 10d.; Wages, £2,916 14s. 7d.; Stable Expenses, £12 3s. 8d.; Rent, £165 10s.; Carriage Inwards, £438 12s. 9d.; Repairs and Renewals, £247 6s. 5d.; Medical Fees, £12 12s.; Depreciation—Plant, £106 2s. 11d.; Machinery, £195 13s. 6d.; Kilns, £203 4s. 7d.; Pumping Plant, £12 6s. 9d.; Railway Siding, £10 14s. 5d.; Brick Sales during year, £9,671 18s. 9d. Stock of Bricks—1st Jan., £972 5s. 10d.; 31st Dec., £716 15s. 8d.

5. **From the following particulars prepare Trading and Profit and Loss**

Account, showing percentages of gross and net profit and expenses on turnover —

Stock, 1st Jan., £8,947 10s. 6d.; Work in Progress, 1st Jan., £1,263 5s. 1d.; Purchases *less* Returns, £12,056 3s. 7d.; Sales *less* Returns, £23,529 16s. 8d.; Salaries, £486 12s. 5d.; Commission, £327 5s. 10d.; Wages, £3,585 16s. 2d.; Advertising, £326 13s. 7d.; Discounts, *Dr. balance*, £384 9s. 4d.; Carriage Inwards, £1,857 10s. 2d.; Rent, Rates, and Taxes £375 14s. 5d.; Carriage Outwards, £352 17s. 9d.; Trade Expenses, £375 11s. 4d.; Bad Debts, £327 6s. 10d.; Depreciation, £384 15s. 8d.; Interest on Capital, £257 11s. 6d.; Stock, 31st Dec., £9,765 19s. 3d.; Work in Progress, 31st Dec., £1,628 19s. 2d.

6. From the following particulars of the " Krynx " Gold Mining Co., Ltd., prepare Working Account for the year ended 31st Dec. —

Ore extraction—Expenses of Mining, £40,825 16s. 7d.; Reduction of Ore—Milling, £16,517 12s. 8d.; Concentrating, £10,026 5s. 3d.; Cyaniding, £44,587 2s. 9d.; Tramming, £4,866 12s. 11d.; Concession Rents paid, £600; Royalties paid, £3,427 10s. 5d.; Prospecting Expenses, £1,013 1s. 8d.; Claim Expenses, £1,768 15s. 3d.; Wages at Mine, £4,026 4s. 10d.; General Charges at Mine, £2,347 13s. 6d.; Mint and Bank Charges on Bullion, £1,428 17s. 5d.; Depreciation of Machinery and Plant, £5,043 12s. 8d.; Bullion Account, £246,017 13s. 2d.; Tailings Account, £2,034 15s. 6d.

7. From the following particulars of the " Koomrie " Tobacco Plantations, Ltd., prepare Working Account for the year ending 31st Dec. —

Planting Wages, £13,016 14s. 8d.; Manufacturing Wages, £4,408 12s. 2d.; Salaries—European Staff, £7,087 3s. 11d.; Native Overseers, £2,007 16s. 5d.; Native Watchmen, £896 7s. 10d.; Coolie Expenses (Brokerage, Passage Money, etc.), £2,956 11s. 6d.; Hospital Working Expenses, £1,016 4s. 8d.; Transport Expenses, £1,037 2s. 6d.; General Plantation Expenses, £1,216 18s. 7d.; Stable Expenses, £602 10s. 9d.; Loss (by death) of Advances to Coolies, £536 5s. 2d.; Wastage of Live Stock, £467 9s. 4d.; Commission on Sale of Tobacco, £3,026 13s. 3d.; Repairs, Renewals, and Depreciation—Railway, £167 19s. 5d.; Steam Launch, Lighters, etc., £346 2s. 9d.; Loose Tools, £307 14s. 8d.; Pier Wharf, etc., £265 10s. 6d.; Ways, Roads, etc., £1,328 11s. 4d.; Buildings, etc., £3,516 13s. 5d.; Proceeds of Sale of Tobacco, £60,817 18s. 6d.

8. From the following particulars of the *Western Star* Newspaper Co., Ltd., prepare Working Account (or Production Account) for the year ending 31st Dec. —

Paper used, £8,516 10s. 2d.; Ink used, £487 14s. 6d.; Compositors and Machining Wages, £4,206 15s. 8d.; Cost of Literary Contributions, £987 14s. 3d.; Sales—Cash, £707 16s. 8d.; Agents, less Discounts and Returns, £15,016 2s. 10d.; Subscribers, less Postages and Wrappers, £2,187 14s. 5d.; Reporters and Office Salaries, £4,617 10s. 2d.; Editors' Salaries, £1,400; Newsagency Telegrams, £246 18s. 6d.; Petty Expenses, £72 6s. 10d.; Gas, Electric Current, and Fuel, £487 13s. 5d.; Repairs and Renewals, £316 14s. 9d.; Sales of Waste Paper, £206 14s. 7d.; Advertisements, £17,950 5s. 8d.; Jobbing Printing Sales, £80 10s. 3d.; Depreciation—Plant, Machinery, and Stereos, £236 15s. 7d.; Linotype Installation, £70; Rates, Taxes, and Insurance of Works, £160 14s. 8d.

9. From the following particulars of the " Bexton " Steam Trawler Co., prepare Working Account for the year ending 31st Dec. —

Coal and Oil, £147 10s. 9d.; Repairs and Renewals, £80 12s. 5d.; Landing

Dues, £10 8s 6d.; Harbour Dues, £8 4s. 3d.; Wages—General, £148 10s. 9d.; Fishermen, £150 6s. 5d.; Casual Labour, £18 14s. 7d.; Commission, £20; Repairs, Stores, etc., £50 13s. 6d.; Net Braiding, Mending, and Tarring, £14 11s. 5d.; Carpentering, £12 9s. 7d.; Painting, £11 8s. 4d.; Salvage Claims, £20 16s. 5d.; Sales of Fish, £994 8s. 10d.; Sale of Old Rope, etc., £1 3s. 11d.

10. The following Balances are extracted from the books of the " Oversley " Canal Co. You are required to draw up the Working Account for the year ending 31st December—

Maintenance, Dredging, and Ice Breaking, £3,506 13s. 8d.; Rents Payable, £1,857 10s. 6d.; Rates, Taxes, and Insurance, £1,314 14s. 5d.; General Charges, £1,206 15s. 4d.; Toll Traffic Receipts, £7,406 15s. 6d.; Freight Traffic Receipts, £14,517 11s. 8d.; Traffic Expenses, £11,986 14s. 4d.; Depreciation of Boats, Horses, and Carrying Plant, £862 9s. 10d.; Rents Receivable, £3,914 16s. 7d.; Miscellaneous Receipts, £85 9s. 8d.

11. From the following particulars extracted from the books of the " Wide Seas " Navigation Co., Ltd., prepare Working Account for the year ended 31st December—

Navigation Expenses: Coal, Water, and Oil, £609,126 10s. 9d.; Dues Towage, Pilotage, etc., £148,705 15s. 6d.; Pay of Officers and Crew, £282,856 11s. 5d.; Provisioning of Passengers, Officers, and Crew, £257,493 18s. 4d.; Suez Canal Dues, £289,586 16s. 8d.; Damages, Claims, and Law Charges, £12,000 10s. 6d.; Expenses of Steamers laid up, £9,857 4s. 11d.; Quarantine Charges, £1,625 17s. 5d.; Ships' Repairs, Stores, and General Maintenance Charges, £165,714 6s. 7d.; Insurance Charges and General Average Claims, £18,409 13s. 4d.; Depreciation of Fleet, etc., £327,916 15s. 6d.; Passage Money, £1,025,716 15s. 8d.; Freight Charters and Miscellaneous Services, £1,306,578 10s. 6d.; Government Contract Services, £250,000; Compensation from Brazilian Government for seizure of s.s. *Early Bird*, £10,000.

12. The following Balances are extracted from the books of the " Sunbeam " Hotel, Ltd. You are required to prepare therefrom the Working Account for the year ended 31st December—

Amounts Consumed: Grocery and Provisions, £4,520 14s. 2d.; Wines, Spirits, and Liqueurs, £4,206 10s. 8d.; Ale, Beer, and Minerals, £1,986 13s. 5d.; Tobacco, Cigars, Cigarettes, £1,023 17s. 6d.; Sundry Stores, £240 16s. 7d.; Wages and Salaries, £5,017 11s. 4d.; Licences and Insurances, £957 13s. 10d.; Newspapers, Magazines, Printing, and Stationery, £305 4s. 9d.; Coals, Gas, and Lighting, £627 19s. 1d.; Repairs and Renewals of Buildings, £214 10s. 6d.; Laundry, £334 18s. 5d.; Stable and Garage Expenses, £235 6s. 8d.; Rates, Taxes, and Insurance, £1,075 10s. 6d.; Repairs, Renewals, and Depreciation —Furniture and Fittings, £306 4s. 6d.; Cutlery and Plate, £162 8s. 5d.; House, Bed, and Table Linen, £105 11s. 3d.; China and Glass, £114 17s. 9d.; Amounts charged to Customers—Grocery and Provisions, £6,517 11s. 4d.; Wines, Spirits, and Liqueurs, £6,702 10s. 8d.; Ale, Beer, and Minerals, £3,098 12s. 6d.; Tobacco, Cigars, Cigarettes, £1,587 8s. 9d.; Apartments, Attendance, and Baths, £11,516 14s. 3d.; Bar Receipts, £1,025 11s. 5d.; Billiard Room Receipts, £472 9s. 7d.; Stable and Garage Receipts, £276 15s. 4d.

13. From the following Trading Account ascertain and state—

(*a*) The cost of material used.
(*b*) The value of the output of manufactured goods.
(*c*) The percentage of gross profit on sales.

Dr. TRADING ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Stock—				By Sales	42,000	–	–
Finished Goods . .	4,000	–	–	„ Stock—			
Raw Materials . .	1,200	–	–	Finished Goods . .	3,500	–	–
„ Purchases . . .	12,000	–	–	Raw Materials . .	1,400	–	–
„ Wages	20,000	–	–				
„ Carriage . . .	1,000	–	–				
„ Balance, Gross Profit .	8,700	–	–				
	£46,900	–	–		£46,900	–	–

(*Incorporated Accountants.*)

14. An order amounting to £2,000 was executed at a cost of: Wages, £880; Materials, £602. Working on the cost figures shown below, state the net profit made on carrying out the order.

Cost Figures	£
Materials	13,000
Wages	26,000
Works Oncost	6,500
Gross Profit	4,500
Office Oncost	1,300
Net Profit	3,200
Work executed	50,000

(*I.B.L.*)

15. An Engineer's books give the following figures—for the first year: Materials purchased, £17,500; Sales, £30,000; Wages, £7,500; and Expenses, £2,000. The Stocks at the beginning of the year were: Materials, £6,000; Finished Work, £4,000; and at the end of the year they were: Materials, £5,000; and Finished Work, £3,000. For the second year, the materials purchased were £14,000; Wages, £4,800; Expenses, £1,200; and Sales, £17,000. The Stock at the end of the second year is Materials £7,000, and Finished Work, £6,000. Prepare a statement showing each year (and also the average of the two years) what are the percentages of Cost of Materials, Wages, Expenses, and Profit on the output. (*West Riding of Yorkshire.*)

16. The undermentioned figures have been extracted from the Trial Balance of the Blankshire Iron Co., Ltd., whose financial year closes on 30th June.

Prepare a Furnaces Account showing the cost per ton of the Pig Iron produced, a Trading Account and a Profit and Loss Account.

Balances Extracted from Trial Balance
30th June.

	£
Coal purchased	7,320
Coke and Limestone purchased	19,550
Ironstone purchased	7,461
Wages (Furnace)	6,842
Sales of Pig Iron	62,446
Stock of Pig Iron (30th June)	9,402
Trade charges	5,424
Sales of Waste Materials and By-products . .	5,862

	£
Office Salaries	3,401
Directors' Fees	1,500
Transfer Fees	52
Depreciation	3,890
Interest received	321
Bad Debts	1,680

The stock of Pig Iron in hand as on 30th June was valued at £9,221.
The Pig Iron produced during the year amounted to 18,600 tons. (*London Chamber of Commerce.*)

17. A Manufacturer's books show the following figures for each item for two years: Materials used, £22,389 and £21,427; Wages, £7,495 and £7,577; Rent and Power, £1,659 and £1,655; Carriage, £513 and £494; Trade Expenses, £303 and £309; Gas and Water, £213 and £240; Travellers, £719 and £763; Repairs, £426 and £563; Insurance, £78 and £78; Depreciation, £600 and £580.
Goods produced (Net), £36,468 and £36,261.
Prepare a Statement showing for each year the various costs per cent on production. (*West Riding of Yorkshire.*)

18. From the particulars given in Exercise II, 24, page 75, prepare a Mine Working Account.

19. Messrs. John Berry and L. Flower were equal partners in the firm of Berry & Flower, Iron Smelters. The following balances of accounts appeared in their books as on 31st December: General Wages, £8,037; Coal used (including Carriage), £6,047; Coke used (including Carriage), £17,546; Wagon Hire (credit balance), £278; Pig Iron Sales, £54,056; Foundry consumption of Pig Iron, £103; Branch Railway Income (leased to adjoining company), £705; Materials and Stores (including Foundry Charges and Repairs to Locomotives, etc.), £1,198; Ironstone used (including Royalties, etc.), £5,707; Limestone used (including Royalties, etc.), £1,513; Salaries of Furnace Experts, £559; Travelling Expenses, £40; Rates and Taxes, £657; Land Damages and Compensation to neighbours, £60; General Charges, £92; Manager's Salary, £500; Pig Iron Stock (31st December), £12,268; Interest (credit balance), £199; J. Berry (Drawings Account), £4,000; L. Flower (Drawings Account), £5,000; Works Plant, Rolling Stock, etc., £33,080; Coal and Coke Wagons, £3,150; Coal Stock (31st December), £240; Coke Stock (31st December), £688; Ironstone Stock (31st December), £600; Limestone Stock (31st December), £35; J. Berry (Capital), £25,531; L. Flower (Capital), £26,613; Sundry Creditors (including all necessary adjustments), £18,732; Sundry Debtors, £15,329; Loans to Workmen, £213; Reserve for Bad Debts, £909; Cash at Bank (Deposit), £9,000; Cash at Bank (Current), £1,523; Cash in hand, £44.
Write £2,500 off Works Plant, Rolling Stock, etc., as depreciation.
Write £150 off Coal and Coke Wagons as depreciation.
Make the Reserve for Bad Debts up to £1,500.
No interest upon Capital or Drawings is to be charged.
The stock of Pig Iron on 31st December was valued at £10,550.
Prepare a Pig Iron Production Account (showing the cost of Pig Iron produced); a Pig Iron Trading Account (showing the gross profit realized by Pig Iron Sales); and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. (*Chartered Accountants.*)

20. Enumerate the items that you would expect to find in the following accounts—

(*a*) Manufacturing Account (prime cost only).
(*b*) Manufacturing Account (cost of production).
(*c*) Working Account of a Mine.
(*d*) Working Account of a Canal Company.

21. Give your views on manufacturing accounts and state your reasons in support of your preference for the prime cost basis of its construction, or, if you oppose the prime cost basis of construction, give reasons justifying the inclusion of oncost items therein.

22. Prepare a Furnace Account (two ways), inserting figures to give completeness to the examples, that will show the components of cost of manufacture of pig iron.

23. For the current year a Trading Account stands thus—

	£		£
Cost of Materials	5,000	Sales	10,000
Wages	3,000		
Discount	500		
Expenses	1,500		
	£10,000		£10,000

State the above costs as percentages on Turnover.

As this leaves no profit, the Trader considers how he can improve matters, and finding that he cannot advance his selling prices he will aim at increasing the Turnover by £2,000, and reducing the percentage costs on Turnover by Materials 2, Wages, 1, Discount 2; the Expenses remain at the same amount.

Show his Trading Account for the next year on the basis of these alterations. (*West Riding of Yorkshire.*)

24. State in what manner you consider the percentages of cost should be shown in a manufacturing business of which the following are the Profit and Loss figures for the year. Calculate such percentages.

	£	£
Purchases	4,500	
Wages	2,000	
Rent	200	
Stock, 1st January	1,000	
Rates, Taxes, and Insurance	100	
Salaries	750	
Depreciation of Plant	250	
Stock, 31st December		1,000
Sales		10,000
Net Profit	2,200	
	£11,000	£11,000

(*Chartered Accountants.*)

25. The London and Madras Trading Co., Ltd., opened a Branch in Madras on 1st July. The following are balances extracted from the Madras Branch Books on 30th June (1st year) and 30th June (2nd year).—

	1st Year	2nd Year
	£	£
Stock at the beginning of the year	Nil	5,400
Purchases during the year	10,000	11,000
Freight and Duty (Inward)	850	1,200
Packing Charges (Inward)	200	350
Wages	200	250
Salaries—Manager	600	1,000
Do. General	400	500
Commission—Manager	300	Nil
Do. General	50	40
Travelling	400	360
Advertising	150	300
Postages and Telegrams	100	200
General Expenses	120	180
Sales	6,000	11,300

The Stock on hand at 30th June (2nd year) was £7,700.

Make out comparative Trading Accounts for the two years, showing gross and net trading profit and percentages. Draw attention to any points which, in your opinion, call for further investigation, and criticize the results shown. You are informed that in the first year the shipments consisted wholly of valuable goods of comparatively small bulk; but in the second year one-third of the shipments consisted of bulky goods of comparatively small value. (*Chartered Accountants.*)

26. The manager of a Manufacturing Concern, of which you are auditor, is paid partly by salary and partly by commission. Under the agreement for service, in case of dispute as to the commission payable, the auditor's decision is to be final. Such a dispute has arisen, and in order that your decision may be wholly unbiased, the Profit and Loss figures are given to you, without any indication as to which are the items in dispute. The following are the figures supplied, and you are asked to prepare and certify statements showing—

(*a*) The manufacturing profit.
(*b*) The percentage of net profit to the manufacturing cost.

	Dr.	*Cr.*
	£	£
Stock, 1st January	1,500	
Purchases	2,000	
Manufacturing Wages and Salaries	2,000	
Office Salaries	410	
Discount on Sales	150	
Carriage Inwards	100	
Carriage Outwards	120	
Printing and Stationery	70	
Rent and Rates	390	
Travelling Expenses	130	
General Expenses	290	
Discount on Purchases		100
Sales		6,000
Stock, 31st December		1,800
	£7,160	£7,900

In answering this question, the detail must be shown. (*Chartered Accountants.*)

REVISION EXERCISE XVII

1. Provide the necessary Journal, Cash Book, and Ledger records for the following transactions—

(*a*) Sold Goods to B on a three months' bill, which document was for £200; B accepted on 1st January, at which date it was endorsed over to J, a creditor. The bill was duly met on maturity.

(*b*) Bought, on credit, from the Exact Scale Manufacturing Co., Ltd., a special mechanical scale which has dial plates showing weight and price; cost £200. Where, and how will you record this transaction?

(*c*) A, who has a *contra* account with Jones', Ltd., desires a settlement of his account with them. In the books of both parties, show how the following transactions will be recorded—

(1) Being defective, Jones' returns goods value £5 to A.

(2) A cheque on account sent by A to Jones' has been returned R/D; amount stated in the cheque was £25.

(3) A has advised Jones' that an invoice for purchases from him value £75 is in error to the extent of £9; due to one item being charged at £21 instead of £12.

The above matters must be adjusted; and you are asked to state how much A must forward Jones' in settlement, in addition to providing the necessary book-keeping records. [According to A's books—his accounts for Jones' were —(*a*) in the Bought Ledger, a balance of £320; (*b*) in the Sales Ledger, a balance of £60; prior, of course, to the above transactions arising.]

2. Capital expenditure and revenue expenditure must be carefully discriminated, and you are asked to place under "capital" and "revenue" respectively the following items, giving reasons, where necessary, for items which seem partly capital and partly revenue—

(1) Sale of Old Plant.
(2) Purchase of Patent Rights.
(3) Renewal fee for (2).
(4) Purchase of Delivery Vans.
(5) „ „ New Wheels (at a later date) for (4).
(6) Installation of Electric Light, etc.
(7) Depreciation of (6).
(8) Purchase of Plant and Machinery.
(9) Repairs to (8).
(10) Extension of Water Mains by a Water Company; also replacement of existing Mains.

3. A business has ten Sales Ledgers marked respectively A, B, C, etc. The Sales Day Book has analysis columns corresponding to the Ledgers. Each Ledger is balanced separately each month. On 20th January a sale of £10 posted to F Ledger is placed in Day Book in G column by mistake. Say how the January monthly summaries of F and G Ledgers are affected, and how the balances shown by the summaries will compare with the balances as extracted from the Ledgers. (*West Riding of Yorkshire.*)

4. Explain what is meant by "Capital Expenditure," and state the considerations which would guide you in deciding whether a particular item of expenditure properly comes within this category or not. (*West Riding of Yorkshire.*)

5. The X Company, Ltd., purchased a business as a going concern, as from the 1st April, for £33,000, payable as to £25,000 in fully-paid shares of £1 each, and the balance in cash, all outstandings to be adjusted up to that date, and the company to pay interest at the rate of 5 per cent. per annum, on the net purchase money from 1st April up to the date of completion, namely, the 1st July. As on the 1st April the following payments had been made in advance —

	£	s.	d.
Telephone Rent	£10	12	11
Fire Insurance	6	6	6
Plate Glass Insurance	2	7	–

On the other hand, there were outstanding liabilities as follows —

	£	s.	d.
Rent	£15	7	8
Gas and Electric Light	86	17	–
Water Rate	2	10	–

Between the 1st April and the 1st July, the vendors received on account of the purchasers £10,942 13s. 5d., and paid on their account £2,485 12s. 6d. A deposit of £3,000 had been paid by the purchasers on the 1st April.

Prepare an account showing the amount due on completion of the purchase. *(Chartered Institute of Secretaries.)*

6. A. Andrews & Co., of London, consigned goods to the value of £2,000 to their agent, B. Bengalee of Bombay, and drew on him for £1,500 at 3 months, discounting the bill at the National Provincial Bank for £1,485. The charges for Insurance, Freight, etc., paid by A. Andrews & Co. amounted to £70. In due course B. Bengalee rendered an Account Sales to A. Andrews & Co. for £2,500 *less* Commission, etc., £85, enclosing a Sight Draft for the balance. Record these transactions in A. Andrews & Co.'s books. *(Chartered Accountants.)*

7.—Smith & Jones united in a venture to purchase at par and issue to the public £200,000 Debentures of a Company, and agreed to share profits and losses equally. They issued the Debentures, which were fully subscribed, at 5% premium. Smith, on his own account, subscribed for and was allotted £20,000, which he subsequently sold at 10% premium; while Jones subscribed for and was allotted £3,000, which he sold at 9% premium. The cost of the issue was £6,000. Create an Account showing how much each gained by the transaction, disregarding interest and tax. *(Chartered Accountants.)*

8. A bill at 6 months for £500, accepted by A on 1st January for goods purchased from B, is discounted with C on 31st March at 5 per cent. per annum. The bill is dishonoured by A's bankers on presentation, the charges for noting and expenses being 5s. A then agrees to pay B £100 Cash on account, and to be charged interest at 6% p.a., giving two bills—one for £200 at 3 months and one for the balance at 6 months. Show all these transactions in B's Ledger. *(Chartered Accountants.)*

9. D, E, and F entered into partnership on the 1st January, their Capitals being—

D	£3,000
E	2,000
F	1,000

and the profits were to be divided—

D $\frac{7}{16}$ E $\frac{5}{16}$ F $\frac{4}{16}$

Each partner was to be credited, before the final division of profits, with interest on his Capital at the rate of 5% p.a., and F was, in addition, to be credited with £200 a year for management. The Drawings were to be charged

with interest, monthly, at the same rate as on the Capital. The several partners' Drawings were as follows —

D		E		F	
1st March . .	£100	1st January .	£50	1st March . .	£75
1st May . . .	75	1st February .	50	1st June . . .	75
1st July . . .	125	1st April . .	50	1st August . .	100
1st September .	50	1st August . .	100	1st October . .	50
1st November .	50	1st October . .	70	1st December .	50
		1st December .	30		

On the 31st December, the books were closed and after ample provision had been made for bad and doubtful debts, depreciation of Stock, Plant, etc., but before interest upon Capital and Drawings had been adjusted, or F's Salary had been charged, there was a balance of profit on the Trading Account of £2,500. Make the necessary calculations of interest, give effect to the arrangement for F's Salary, divide the net profits as arranged, and make a final statement showing the position of each partner. (*Chartered Accountants.*)

10. Prepare an Income and Expenditure Account from the following Trial Balance of a club, taken out on the 31st December —

Rent for the year	£500	
Rates, Taxes, Lighting, and Insurance for the year .	436	
Sundry Creditors		£1,322
Entrance Fees		36
Cash at Bankers'	30	
,, in hand	2	
Secretary's Remuneration	150	
Sundry Debtors	37	
Subscriptions paid in advance		160
Furniture, Fittings, and Fixtures	1,281	
Stewards' and Servants' Wages	600	
Structural and other Improvements to Club House .	1,684	
Printing, Stationery, Newspapers, etc.	145	
Law Charges	18	
Annual Subscriptions		2,173
Card and Billiard Room Receipts		123
Washing, Liveries, and Sundries	107	
Wines, Spirits, Cards, and Cigars sold		433
Repairs to House and Furniture	409	
Conversazione Expenses	95	
Wines, Spirits, and Cigars purchased	341	
Stock of Cigars (1st Jan.)	15	
Interest on Loan	6	
Special Call made on Members		314
Excess of Income over Expenditure brought forward from last account		1,295
	£5,856	£5,856

£123 has to be written off the furniture, fixtures, and fittings, and £100 off the structural and other improvements. There is no stock at the end of the year. (*Chartered Accountants.*)

11. You are appointed book-keeper to an old-established business which has recently been converted into a public Limited Company. Give rulings

of any books which it would be necessary for the new Company to keep, other than the ordinary books of Account which are already in existence, and need no amendment. (*National Union of Teachers.*)

12. Enter into Journal and Cash Book the following transactions of a Limited Company—

The Company was registered on the 1st January with a Nominal Capital of £120,000, divided into 120,000 shares of £1 each, of which 40,000 were issued as fully paid to the Vendor as part purchase consideration, 40,000 offered for subscription to provide Working Capital, payable as to 5s. per share on application, 5s. per share on allotment, and the remainder in two calls of 5s. each; 40,000 shares to be held in reserve for future issue. The Vendor also received £10,000 in 5 per cent Debentures, being the balance of the purchase consideration.

Jan.	5.	Applications were received for 35,000 shares.
	6.	Allotment made of 35,000 shares.
	10.	Amount due on allotment of 35,000 shares was received.
Feb.	10.	First Call of 5s. per share was made, payable on the 24th February.
	10.	40,000 fully-paid Shares allotted to the Vendor.
	10.	5 per cent. Debentures issued to Vendor for £10,000, balance of purchase-money.

(*Chartered Accountants.*)

13. Jones, Brown & Robinson were partners in a business, profits and losses being divided—Jones $\frac{2}{5}$ths, Brown $\frac{2}{5}$ths, and Robinson $\frac{1}{5}$th. The partnership was dissolved as on 31st December, on which date the position of the firm was as follows—

BALANCE SHEET

Capital—			Sundry Assets		£10,620
Jones	£3,000		Debtors—		
Brown	2,100		Robinson	£500	
		£5,100	Sundry	2,000	
Loans—					2,500
Jones	£500		Cash in hand		120
Smith	800				
		1,300			
Sundry Creditors		5,840			
Bank Overdraft		1,000			
		£13,240			£13,240

The expenses of dissolution were £120. Jones took over the business, paying £7,850 for the "Sundry Assets," and £2,500 for the Goodwill. Prepare an account, as between the partners, showing the result of the dissolution. (*Chartered Accountants.*)

14. Prepare Journal entries to record the following transactions in the books of a Limited Company: 200 shares of £1 each, 15s. called up, and on which 5s. per share had been paid, were forfeited and subsequently sold to X for £130, credited with 15s. per share paid up. (*Chartered Accountants.*)

15. The following is stated in a Brewery Company's report to have been the result of the year's working—

Profit for the year	£120,000
of which there has been paid or charged—	
Interest on Debenture Stock	40,000
Interest on Mortgages and Deposits	10,000

Directors' and Trustees' Fees, Income Tax, and Management Expenses	£16,000
Loss on houses taken under the Licensing Act, 1904	5,000
Compensation Levy under the same Act	5,500
Dividend on Preference Shares	15,000

and it is recommended that the balance be carried to Reserve Account. Make the Journal entries to record the above appropriations, and post to their respective Ledger Accounts. (*Chartered Accountants.*)

16. The General Trading Company, Ltd., carry on business as Merchants. The Capital of the Company is £40,000, divided into 20,000 Ordinary shares of £1 each, all of which have been issued and are paid up to the extent of 15s. per share, and 20,000 6 per cent Preference shares of £1 each, of which 15,000 have been issued, and are fully paid up.

TRIAL BALANCE—30TH JUNE

Ordinary Share Capital		£15,000
Preference „ „		15,000
Stocks, 1st July, Department A	£2,300	
„ „ „ B	1,100	
„ „ „ C	400	
„ „ „ D	700	
Purchases, Freight Duty, etc. Depart. A	16,000	
„ „ „ „ B	27,000	
„ „ „ „ C	12,000	
„ „ „ „ D	13,000	
Sales, Department A		30,000
„ „ B		37,000
„ „ C		15,000
„ „ D		18,000
Sundry Debtors	23,000	
Bills Receivable	5,000	
Sundry Creditors		12,000
Bills Payable		1,500
Office Furniture and Fixtures	1,080	
Rent, Rates, and Insurance	1,800	
Marine Insurance	2,400	
Travellers' Salaries and Expenses	5,400	
Office Salaries	1,800	
Commission	1,200	
Advertising	4,800	
Stationery and Printing	2,700	
Telegrams and Stamps	600	
Bank Charges	120	
Discounts and Exchange	1,500	
Incidental Expenses	900	
Directors' Remuneration	3,000	
Coal Mining Syndicate Shares	6,000	
Germanic Bank (Limited)	3,550	
Banque de la République	2,500	
British Bank (Limited)	3,500	
Income Tax Reserve Account		300
Dividend Account—Half-year's Dividend on Pref. Shares, 31st Dec.	450	
	£143,800	£143,800

The business of the Company is divided into four Departments—

A. Iron and Steel;
B. Coal;
C. Machinery and Tools;
D. Sundries.

From the Trial Balance on previous page for the year ending 30th June prepare Departmental Trading Accounts, showing gross profit of each department, and apportion the expenses in proportion to the turnover of each department.

Write 10 per cent depreciation off Furniture and Fittings, provide £300 for Bad Debts, and 2% on the debtors for Discounts.

The Stocks on hand on 30th June were: A, £3,000; B, £1,000; C, £700; and D, £980.

No dividends have been received on the shares in the Coal Mining Syndicate, Ltd., and the directors have decided to place £3,000 to a Reserve Fund, to provide for the depreciation in value of these shares.

Prepare Profit and Loss Account and Balance Sheet. (*Chartered Accountants.*)

17. The Chiddingfold Manufacturing Co., Ltd., was registered with a nominal Capital of £100,000, divided into 50,000 6% Preference Shares of £1 each, and 50,000 Ordinary Shares of £1 each.

The books of the Company were balanced as on 31st January, on which date a Trial Balance, containing the following balances, was extracted from the books—

Carriage, Dock Dues, and Freight	£4,773	Cash in hand	£210
Advertising	649	Horses and Carts	720
Fuel, Lighting, and Water	2,163	Transfer Fees	1
Postage and Incidentals	590	Purchases	102,664
Catalogues and Price Lists	416	Purchases Returns	3,748
Packing	542	Factory Wages	12,704
Machinery Repairs	177	Salaries and Travellers' Commission	10,691
Stable Expenses	913	Rents, Rates, Taxes, and Insurance	3,173
Office Expenses, Stationery, and Telephone	1,022	Sales	174,493
Ordinary Share Capital A/c	5,000	Sales Returns	6,619
Six per cent Preference Share Capital Account	20,000	Discount Account (Debit Balance)	2,762
Debenture Capital Account (200 Debentures of £100 each at 4½%)	20,000	Bad Debts written off	203
Employees' Superannuation Fund	4,360	Bank Charges and Interest	42
Debenture Interest	855	Legal Expenses and Audit Fee	418
Directors' Salaries	1,095	Company's Contribution to Superannuation Fund	516
Buildings Account	903	Debtors as per Sales Ledger	19,876
Machinery and Plant A/c	8,750	Creditors as per Bought Ledger	4,340
Stock on hand (Feb. 1st)	38,672	Bills Payable	320
£5,000 Consols (at cost) (Investment of Employees' Superannuation Fund)	4,360	Cash at Bank	5,784

Before closing the books the following adjustments are necessary—

1. Telephone Rent paid in advance £25
2. Travellers' Commission owing 342

3. Rent due £379
4. Insurance unexpired 541
5. Reserve for Discounts, etc., on Sundry Debtors . 500
6. Write off the following Depreciations —
   Machinery and Plant, 10 per cent
   Carts and Horses, £214.

The Stock on hand as on 31st January was valued at £34,839.

The Directors decide to write off the whole of the Buildings Account and to transfer £7,000 to Reserve Account from the profits of the year.

You are required to prepare a Trading and Profit and Loss Account for the year ended 31st January, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

CHAPTER XVIII

DEPRECIATION, SINKING FUNDS, RESERVES, RESERVE FUNDS, SECRET RESERVES

What is Depreciation? Depreciation is the gradual decrease in value of an asset from any cause.

Difference between Depreciation, Fluctuation, and Wear and Tear. Depreciation denotes a *permanent* decrease in value; fluctuation indicates merely a *temporary* decrease or increase of value; wear and tear signifies shrinkage of value arising from one cause, namely, use.

Causes of Depreciation. The causes of depreciation are—

1. Ordinary, inherent, or internal, such as wear and tear of wasting assets arising through use or working, e.g. buildings, plant, and machinery.
2. Extraordinary or external, such as obsolescence in the case of machinery, a fall in market price in the case of investments, expiration or effluxion of time in the case of a lease, patent, etc.

Reasons for Charging Depreciation. Unless assets are depreciated, it is obvious that, on the Balance Sheet, their value will be overstated; and the Balance Sheet will not, therefore, be a correct representation of the state of the business. Further, assets such as plant and machinery are held for the purpose of earning income, and the loss arising on those assets through wear and tear is undoubtedly a loss incurred in the earning of such income, and should equitably be charged or set off against it. Lastly, if depreciation was not provided for by charges against Revenue, additional capital would have to be raised whenever the necessity for replacing the asset arose.

Special Terms and their Meaning. In connexion with the subject of depreciation, special terms are in use, which the student must carefully note. The life of an asset is the number of years that it will continue to be usable or productive. At the end of their life some assets have no value at all, e.g. a Lease, or Patents; other assets, such as Plant and Machinery, have a **residual** or **break-up value,** that is, the value of the material as old or scrap iron. Machinery is said to be **scrapped** or **thrown on the scrap heap** when it is broken up at the end of its period of usefulness, because it is worn out or has been superseded by newer and more efficient machinery. In certain businesses, the possibility of *obsolescence,* i.e. machinery being rendered obsolete by the later and better inventions, which will do the same work more quickly and more cheaply, is a very important factor, and influences largely the "rates"

of depreciation. If the loss sustained by obsolescence is unexpected and very large, it is not carried to Profit and Loss at once, but written off gradually over a number of years; but where such obsolescence can be foreseen, it should be provided for in anticipation.

Repairs, Renewals, and Replacements. To repair, means to restore again, to make efficient for all practical purposes. To renew, means to discard an asset, or some part of it, and to replace with a similar or improved asset or part. It has been argued by some accountants, that, if proper provision is made for repairs and renewals, the necessity for providing for depreciation is thereby obviated. Other accountants maintain that, in spite of constant repairs, there is an inevitable depreciation to be taken into consideration.

Entries for Depreciation in the Books of Account. To depreciate in the book-keeping sense of the term, means to write down the value of assets. This is done by means of a Journal entry *debiting* to a Depreciation Account the amount to be written off, and *crediting* it to the account of the asset, thus reducing the book value of the latter. The Depreciation Account itself is closed ultimately by transfer to Profit and Loss.

Methods of Depreciation. There are seven different methods of charging or providing for depreciation—

1. Fixed Instalment Method.
2. Diminishing or Reducing Balance Method.
3. Annuity System.
4. Depreciation Fund Method.
5. Insurance Policy System.
6. Revaluation Process.
7. To charge one sum to cover repairs, renewals, and depreciation.

(1) Fixed Instalment Method

Nature and Use. Under this system, a fixed proportion of the original capital outlay is written off annually in order to reduce the asset to zero or residual value at the end of the period, repairs and small renewals being debited to Profit and Loss. This method is suitable for Patents, and also for short Leases which involve little capital outlay, and is sometimes used for Plant and Machinery. Suppose, for instance, Machinery has been purchased at a cost of £4,000; that its life is six years; that its break-up value is £400. Then, £3,600 must be written off in six years, that is, £600 each year. Or, looking at it from the percentage point of view, we have to write off $\frac{3600}{4000}$ or $\frac{9}{10}$ of the amount, that is, 90 per cent in six years; therefore, 15 per cent of the original cost must be written off each year. Again, supposing a patent had sixteen years to

run, it could be written off by $\frac{1}{16}$ of the original cost each year; and at the end of that time the balance of the Patents Account would be extinguished.

Disadvantages. One disadvantage of this method is (for Plant and Machinery) that while the depreciation remains constant, there is an increasing charge to Revenue during the life of the asset; as in the first few years the repairs are light, while in the later years they may be very heavy. Another disadvantage is that any additions to the plant and machinery would throw out the original calculation, and necessitate a fresh one being made; this can be obviated by building up a Depreciation Account separate from the Machinery Account, e.g.—

MACHINERY ACCOUNT

Year		£	s.	d.					
	To Cash . . .	1,000	-	-					
1	„ „ (additions) .	100	-	-					
2	„ „ („) .	200	-	-					

DEPRECIATION (MACHINERY) ACCOUNT

					Year		£	s.	d.
					1	By P. & L. A/c—10%	100	-	-
					2	„ „ „ „	110	-	-
					3	„ „ „ „	130	-	-

Example. A Lease is purchased for a term of four years for the sum of £320. Show how the Lease Account would appear in the Ledger during this period, depreciation being written off by equal instalments each year.

Dr. LEASE ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash .	320	-	-	1	By Depreciation .	80	-	-
						„ Balance c/d .	240	-	-
		£320	-	-			£320	-	-
2	To Balance b/d.	240	-	-	2	By Depreciation .	80	-	-
						„ Balance c/d .	160	-	-
		£240	-	-			£240	-	-
3	To Balance b/d.	160	-	-	3	By Depreciation .	80	-	-
						„ Balance c/d .	80	-	-
		£160	-	-			£160	-	-
4	To Balance b/d.	80	-	-	4	By Depreciation .	80	-	-

In the above example, depreciation is $(\frac{320}{320} \times \frac{100}{1}) = 100$ per cent in four years, or at the rate of 25 per cent per annum of the original

outlay. Or, from another point of view, £320 has to be written off in four years, which gives us £80 each year to write off the original cost. A Journal entry would be made each year for four years, thus—

Depreciation . . .	*Dr.*	£80	
To Lease . . .	*Cr.*		£80

The amount of the Lease Account not written off would appear on the assets side of the Balance Sheet.

(2) Diminishing Balance Method

Nature and Use. By this method a fixed rate per cent is written off the reducing annual balance of the Asset Account each year, in order to reduce it to residual value when its period of usefulness for revenue-earning purposes has expired. Repairs and small renewals are, as under the first method, charged to Profit and Loss. This system is usually adopted for Plant and Machinery, Furniture, Fixtures, Fittings, etc.

Advantages. The advantage of this method of depreciation is that it tends to give a fairly even charge against Revenue each year. For, while depreciation is heavy during the first few years, this is counterbalanced by the repairs being light; and in the later years, when repairs are heavy, this is counterbalanced by the decreasing charge for depreciation.

Mathematical Formula. The rate per cent to write off the diminishing value each year is found by means of the following formula—

$$P \times \left(\frac{100 - r}{100}\right)^n = RV$$

where P denotes the principal, r the required rate per cent, n the number of years, and $R\,V$ the residual value.

Example. Machinery is bought for £2,000. Its life is estimated to be six years, and its break-up value at the end of the period £356. Show the Machinery Account for the six years, writing off depreciation at a fixed rate per cent on the diminishing or reducing value of the asset.

According to the formula—

$$2000 \times \left(\frac{100 - r}{100}\right)^6 = 356$$

which, when reduced, gives—

$$r = 100 - 100\sqrt[6]{\cdot 178} = 100 - 100\,(\cdot 7500) \text{ approx.};$$

$$\text{hence} \quad r = 100 - 75 = 25 \text{ per cent approx.}$$

The Ledger Account of the asset will be as follows—

Dr. MACHINERY *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash	2,000	-	-	1	By Depreciation	500	-	-
						„ Balance c/d	1,500	-	-
		£2,000	-	-			£2,000	-	-
2	To Balance b/d	1,500	-	-	2	By Depreciation	375	-	-
						„ Balance c/d	1,125	-	-
		£1,500	-	-			£1,500	-	-
3	To Balance b/d	1,125	-	-	3	By Depreciation	281	5	-
						„ Balance c/d	843	15	-
		£1,125	-	-			£1,125	-	-
4	To Balance b/d	843	15	-	4	By Depreciation	210	18	9
						„ Balance c/d	632	16	3
		£843	15	-			£843	15	-
5	To Balance b/d	632	16	3	5	By Depreciation	158	4	1
						„ Balance c/d	474	12	2
		£632	16	3			£632	16	3
6	To Balance b/d	474	12	2	6	By Depreciation (Adjustment of 10d.)	118	12	2
						„ Balance c/d	356	-	-
		£474	12	2			£474	12	2
7	To Balance b/d	356	-	-					

Reduction of Formula. The reduction of the formula seems to give students a great deal of trouble. A simple method of reducing it is as follows—

Formula— $$2000 \times \left(\frac{100-r}{100}\right)^6 = 356$$

Divide both sides by 2000, and the following is the result—

$$\left(\frac{100-r}{100}\right)^6 = \frac{356}{2000} = \frac{178}{1000} = \cdot 178$$

Take the sixth root of both sides, and the result yields—

$$\frac{100-r}{100} = \sqrt[6]{\cdot 178}$$

Multiply both sides by 100—

$$= 100 - r = 100\sqrt[6]{\cdot 178}$$

Transpose the 100, and change signs, and the result is—

$$r = 100 - 100\sqrt[6]{178} = 100 - 100\ (\cdot 7500)\ \text{approx.}$$

Hence, $r = 100 - 75 = 25$ per cent approximately.

In this case, the cube root of ·178 is ·5625 (approx.); and the square root of ·5625 is ·75. In cases, however, where the root cannot be extracted arithmetically, e.g. the fifth root or the seventh root, recourse must be had to logarithms to obtain the required root. For instance, in the above example—

$$\log \cdot 178 = \bar{1}\cdot 2504200$$

$$\div \text{ by } 6 = \bar{1}\cdot 8750700 = \log \text{ of } \cdot 7500 \text{ (approx.)}$$

Depreciation of Additions to an Asset. The question of how to treat additions to an asset when writing off depreciation on the first occasion after such addition, is rather a complex one. Owing to conflicting views, no less than three different methods obtain. The additions are—

1. Ignored, by writing depreciation off the balance of the Asset Account as at the *beginning* of the year.
2. Included, by writing depreciation off the balance of the Asset Account as at the *end* of the year.
3. Depreciated *proportionately*, a machine purchased about the middle of the year being written down at *half* the annual rate, and so on.

Example. Machinery is bought for a sum of £2,500. Additions are made in June in the second year to the extent of £200, and in March of the third year to the amount of £150. Show, by means of Ledger Accounts, the various methods of dealing with the additions when writing off annual depreciation at the rate of 10 per cent on the diminishing balance.

First Method—

Dr. PLANT AND MACHINERY *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash	2,500	–	–	1	By Depreciation, 10% £2,500	250	–	–
						" Balance c/d	2,250	–	–
		£2,500	–	–			£2,500	–	–
2	To Balance b/d	2,250	–	–	2	By Depreciation, 10% £2,250	225	–	–
	" Cash (June)	200	–	–		" Balance c/d	2,225	–	–
		£2,450	–	–			£2,450	–	–
3	To Balance b/d	2,225	–	–	3	By Depreciation, 10% £2,225	222	10	–
	" Cash (March)	150	–	–		" Balance c/d	2,152	10	–
		£2,375	–	–			£2,375	–	–
	To Balance b/d	2,152	10	–					

Second Method—

Dr. PLANT AND MACHINERY *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash . . .	2,500	–	–	1	By Depreciation, 10% £2,500 . .	250	–	–
						„ Balance c/d . .	2,250	–	–
		2,500	–	–			2,500	–	–
2	To Balance b/d . .	2,250	–	–	2	By Depreciation, 10% £2,450 . .	245	–	–
	„ Cash (June) . .	200	–	–		„ Balance c/d . .	2,205	–	–
		2,450	–	–			2,450	–	–
3	To Balance b/d . .	2,205	–	–	3	By Depreciation, 10% £2,355 . .	235	10	–
	„ Cash (March) .	150	–	–		„ Balance c/d . .	2,119	10	–
		2,355	–	–			2,355	–	–
	To Balance b/d . .	2,119	10	–					

Third Method—

Dr. PLANT AND MACHINERY *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash . .	2,500	–	–	1	By Depreciation, 10% £2,500 . .	250	–	–
						„ Balance c/d . .	2,250	–	–
		2,500	–	–			2,500	–	–
2	To Balance . .	2,250	–	–	2	By Depreciation— 10% £2,250 = £225; 5% £200 = 10	235	–	–
	„ Cash (June) . .	200	–	–		„ Balance c/d . .	2,215	–	–
		2,450	–	–			2,450	–	–
3	To Balance b/d . .	2,215	–	–	3	By Depreciation— 10% £2,215 = £221 10; 7½% £150 = 11 5	232	15	–
	„ Cash (March) .	150	–	–		„ Balance c/d . .	2,132	5	–
		2,365	–	–			2,365	–	–
	To Balance b/d . .	2,132	5	–					

(3) Annuity System

Nature and Use. Under the Annuity System the purchase of the asset is regarded as an investment of capital which, if employed for other purposes, would be earning a certain rate of interest. Interest at this fixed rate is, therefore, debited to the Asset Account each year, and credited to an Interest Account. The asset and

Interest are then written down by equal annual instalments until extinguished. This method is used principally for Leases involving considerable outlay spread over a number of years, when it is not desired to replace them at the end of the period. It is not so suitable for Plant and Machinery, as fresh calculations would be necessary each time additions were made. This system although very scientific, results in an increasing charge against Revenue each year; for, while the depreciation that is debited remains constant, the interest being credited will diminish each year. If at the expiration of a Lease, dilapidations have to be provided for, this can best be done by means of the Sinking Fund Method explained later on in this chapter.

Annuity Method Depreciation Tables. The amount to be written off yearly by the Annuity Method (i.e. Principal + Interest ÷ Instalment) can be easily calculated from Tables based on the following formula for £1—

$$\frac{1}{\dfrac{1 + \text{Interest}^n - 1}{\text{Interest}}} + \text{Interest, or } \frac{\text{Interest}}{\text{Compound Interest}^n} + \text{Interest}$$

where n = number of years. This gives us for five years, at 5 per cent,

$$\frac{\cdot 05}{\cdot 276281} + \cdot 05 \text{ or } \cdot 180975 + \cdot 05\text{, that is } \cdot 230975\,;$$

and so on for other rates and years.

The following Table A is sufficient for ordinary book-keeping purposes, and for the working of the exercises at the end of this chapter —

TABLE A

Amount required to write off £1 by the Annuity Method

Years	3%	3½ %	4 %	4½ %	5%
3	·353530	·356933	·360348	·363773	·367208
4	·269028	·272251	·275490	·278744	·282012
5	·218354	·221481	·224627	·227792	·230975
6	·184597	·187668	·190761	·193878	·197017
7	·160506	·163544	·166609	·169701	·172819
8	·142456	·145476	·148527	·151609	·154721
9	·128433	·131446	·134493	·137574	·140690
10	·117230	·120241	·123291	·126378	·129504

Example. A Lease is purchased for a term of seven years by payment of £3,000. It is proposed to depreciate the Lease by the Annuity Method, charging 4 per cent interest. Show the Ledger Account of the asset during this period.

Reference to the above Table A shows that the amount for £1 for seven years at 4 per cent is ·166609. Multiplying this by £3,000, we get £499·827000, or £499·827, which (converting the decimal at sight, as explained in Chapter IX on page 284) gives us £499 16s. 6½d.

Dr. LEASE ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash . . .	3,000	–	–	1	By Depreciation .	499	16	7
	„ Interest . . .	120	–	–		„ Balance c/d . .	2,620	3	5
		3,120	–	–			3,120	–	–
2	To Balance b/d . .	2,620	3	5	2	By Depreciation .	499	16	7
	„ Interest . . .	104	16	2		„ Balance c/d . .	2,225	3	–
		2,724	19	7			2,724	19	7
3	To Balance b/d . .	2,225	3	–	3	By Depreciation .	499	16	7
	„ Interest . . .	89	–	1		„ Balance c/d . .	1,814	6	6
		2,314	3	1			2,314	3	1
4	To Balance b/d . .	1,814	6	6	4	By Depreciation .	499	16	7
	„ Interest . . .	72	11	6		„ Balance c/d . .	1,387	1	5
		1,886	18	–			1,886	18	–
5	To Balance b/d . .	1,387	1	5	5	By Depreciation .	499	16	7
	„ Interest . . .	55	9	8		„ Balance c/d . .	942	14	6
		1,442	11	1			1,442	11	1
6	To Balance b/d . .	942	14	6	6	By Depreciation .	499	16	7
	„ Interest . . .	37	14	2		„ Balance c/d . .	480	12	1
		980	8	8			980	8	8
7	To Balance b/d . .	480	12	1	7	By Depreciation .	499	16	7
	„ Interest . . .	19	4	6					
		499	16	7			499	16	7

Note. Owing to fractions of a 1d. being neglected, there is often a small adjustment to make in the last year.

Calculations in Decimals. In examination work the student is sometimes asked to leave the calculations in decimals instead of

reducing them to money. This saves time and labour. The last example, worked in this fashion, would appear thus —

Dr. LEASE ACCOUNT. *Cr.*

Year		£	Year		£
1	To Cash	3,000·000	1	By Depreciation . .	499·827
	" Interest	120·000		" Balance c/d . . .	2,620·173
		3,120·000			3,120·000
2	To Balance b/d . . .	2620·173	2	By Depreciation . .	499·827
	" Interest	104·807		" Balance c/d . . .	2,225·153
		2,724·980			2,724·980
3	To Balance b/d . . .	2,225·153	3	By Depreciation . .	499·827
	" Interest	89·006		" Balance c/d . . .	1,814·332
		2,314·159			2,314·159
4	To Balance b/d . . .	1,814·332	4	By Depreciation . .	499·827
	" Interest	72·573		" Balance c/d . . .	1,387·078
		1,886·905			1,886·905
5	To Balance b/d . . .	1,387·078	5	By Depreciation . .	499·827
	" Interest	55·483		" Balance c/d . .	942·734
		1,442·561			1,442·561
6	To Balance b/d . .	942·734	6	By Depreciation . .	499·827
	" Interest	37·709		" Balance c/d . . .	480·616
		980·443			980·443
7	To Balance b/d . . .	480·616	7	By Depreciation . . (Adjustment of ·013 or 3d.)	499·840
	" Interest	19·224			
		499·840			499·840

(4) Depreciation Fund Principle

Nature and Use. Under this method the asset is allowed to stand in the books at its original cost. A fixed amount, called the Sinking Fund instalment, is debited to Profit and Loss each year; and a corresponding amount of cash is invested every year in gilt-edged securities, the amount being such as will, during the life of the asset, accumulate, at compound interest, to the sum required to replace it. This system is adopted for Plant and Machinery and wasting assets whenever it is desired not merely to write off an asset, but also to make provision for its replacement at the end of its life.

Other Terms. The Depreciation Fund Account is also designated by other names, such as Amortisation Fund Account, Sinking Fund Account, Redemption Fund Account. The first term is more appropriate to the writing off of intangible expenditure, i.e. such

as is not represented by assets, e.g. Debenture Discount; the last two terms are more suitable for the repayment of loans and debentures. Depreciation Fund Account is the best term to use in connection with the replacement of a wasting asset.

Object of Investing Cash. The object of investing cash each year and allowing it to accumulate is that the Fund becomes available (on realizing the Investments) whenever it is required. If a separate sum of money were not thus provided, the cash required at the end of the period would have to be taken from the ordinary bank balance; this might cause serious inconvenience to the business, and if the amount were very large, might cripple it. If this could not be done, fresh capital would have to be provided. The great advantage of the Sinking Fund Investment, therefore, is that it provides the money outside the business, and prevents any disturbance of the financial position.

Students often experience considerable difficulty in understanding these Sinking Funds and their corresponding Investments. It is because the fact that profit itself is very often not a tangible item, but only a mere paper balance. If goods are sold for £120, which cost £100, it is true a profit of £20 is made, but the point is, if the goods had been sold *for cash*, then the profit is a realized one; but if these goods were sold *on credit*, the profit exists only on paper, and will not be realized until the debt is paid. With reference to the Sinking Fund and its Investments, there is a twofold action. The Sinking Fund Account is being built up either by charges against, or appropriations of, *profits*, while the Investment Account is being built up by appropriations of *cash*. "Putting by and investing *profits*" is a term wrongly used in this connection; what is really done, however, is to invest *cash* on account of profits. Again, an asset cannot be purchased with profits, but only with cash or its equivalent. It does not follow that having a Depreciation Fund Account (or a Sinking Fund Account) amounting to £3,000, that £3,000 in cash is in hand in respect of it. The bank balance at this particular time might be very small. The object of the Sinking Fund Investments is to make sure that a separate sum of cash, i.e. independent of the ordinary bank balance, shall be available (by selling the investments) whenever it is required.

Procedure at End of Period. At the end of the period the Investments will be realized, the cash received being debited in the Cash Book "*To Sinking Fund Investment Account,*" and posted to the credit of this said account in order to close it. The Depreciation Fund Account is transferred to the Asset Account, and thereby closes the latter. This shows very clearly that a Depreciation Fund is a charge against profits and *not* an appropriation of profits. The cash is now in hand with which to purchase the new asset. Should,

however, the investments realize more or less than the required sum—and this is often the case in actual practice—the difference of the Investment Account must be adjusted by a debit or credit to Profit and Loss, as the case may be.

Sinking Fund Depreciation Tables. The Sinking Fund amount is calculated from tables based on the following formula—

$$\frac{1}{\dfrac{1 + \text{Interest}^n - 1}{\text{Interest}}} \quad \text{or} \quad \frac{\text{Interest}}{\text{Total amount of Compound Interest in } n \text{ years}}$$

This gives the amount to be set aside yearly, at a given rate of interest, to provide £1 at the end of *n* or the given number of years.

For five years at 5 per cent the amount shows—

$$\frac{\cdot 05}{\cdot 276281} \quad \text{or} \quad \cdot 180975$$

and so on for other years at other rates.

The following table, which is sufficient for ordinary book-keeping purposes, should prove very useful to the student—

TABLE B

Annual Sinking Fund Instalments to provide £1

Years	3%	3½%	4%	4½%	5%
3	·323530	·321933	·320348	·318773	·317208
4	·239028	·237251	·235490	·233744	·232012
5	·188354	·186481	·184627	·182792	·180975
6	·154597	·152668	·150761	·148878	·147017
7	·130506	·128544	·126609	·124701	·122819
8	·112456	·110476	·108527	·106609	·104721
9	·098433	·096446	·094493	·092574	·090690
10	·087230	·085241	·083291	·081378	·079504

Example. £3,000 is paid for a Lease for a term of seven years. It is desired to write off this amount by means of the Depreciation Fund System, it being necessary to raise a similar amount, at 4 per cent compound interest, in order to replace the Lease at the end of the period. Show the Ledger Accounts dealing with this matter.

Referring to Table B, we find the amount required to be invested yearly at 4 per cent in order to produce £1 at the end of seven years is ·126609. The amount required to produce £3,000 will, therefore, be £3,000 × ·126609, which gives us £379·827, or (converting the decimal at sight as previously explained), £379 16s. 7d.

The following entries will be necessary in the books—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
Year 1	Profit and Loss Account . .	379	16	7			
	To Depreciation Fund A/c .				379	16	7
	Amount of annual instalment.						

and so on for seven years.

CASH BOOK

	Receipts	Bank £	s.	d.
Year 2	To Depreciation Fund Account (*interest on first year's investment*)	15	3	10

and similar entries for other years.

CASH BOOK

	Payments	Bank £	s.	d.
Year 1	By Depreciation Fund Investment A/c . . (*Investment of Cash equal to first year's instalment.*)	379	16	7
2	„ Depreciation Fund Investment A/c . . (*Investment of Cash equal to second year's instalment plus interest on first year's investment.*)	395	–	5

and similar entries for other years.

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
(Year 1) Depreciation Fund Account . .	379	16	7	(Year 1) Depreciation Fund Investment Account	379	16	7
(Year 2) Depreciation Fund Account . .	774	17	–	(Year 2) Depreciation Fund Investment Account	774	17	–

The reason why the Depreciation Fund Investment Account does not, on the Balance Sheet, always correspond in amount with

the Depreciation Fund Account, is that the instalment is charged against profits at the end of the year (say 31st Dec.), but the corresponding investment of cash may not take place until the first month (say January) of the succeeding year. For the sake of clearness, however, the dates in the worked example have been made to agree.

The Ledger Accounts would appear as under —

Dr. LEASE ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1 Jan. 1	To Cash . . .	3,000	-	-	7 Dec. 31	By Depreciation Fund Account . .	3,000	-	-

Dr. DEPRECIATION FUND ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1 Dec. 31	To Balance c/d .	379	16	7	1 Dec. 31	By Profit and Loss .	379	16	7
2 Dec. 31	To Balance c/d . .	774	17	-	2 Jan. 1	By Balance b/d .	379	16	7
					Dec. 31	„ Cash (Interest) .	15	3	10
					31	„ Profit and Loss .	379	16	7
		774	17	-			774	17	-
3 Dec. 31	To Balance c/d .	1,185	13	5	3 Jan. 1	By Balance b/d .	774	17	-
					Dec. 31	„ Cash (Interest) .	30	19	10
					31	„ Profit and Loss .	379	16	7
		1,185	13	5			1,185	13	5
4 Dec. 31	To Balance c/d .	1,612	18	6	4 Jan. 1	By Balance b/d .	1,185	13	5
					Dec. 31	„ Cash (Interest) .	47	8	6
					31	„ Profit and Loss .	379	16	7
		1,612	18	6			1,612	18	6
5 Dec. 31	To Balance c/d .	2,057	5	5	5 Jan. 1	By Balance b/d .	1,612	18	6
					Dec. 31	„ Cash (Interest) .	64	10	4
					31	„ Profit and Loss .	379	16	7
		2,057	5	5			2,057	5	5
6 Dec. 31	To Balance c/d .	2,519	7	10	6 Jan. 1	By Balance b/d .	2,057	5	5
					Dec. 31	„ Cash (Interest) .	82	5	10
					31	„ Profit and Loss .	379	16	7
		2,519	7	10			2,519	7	10
7 Dec. 31	To Amount transferred to Lease A/c	3,000	-	-	7 Jan. 1	By Balance b/d .	2,519	7	10
					Dec. 31	„ Cash (Interest) .	100	15	6
					31	„ Profit and Loss (Adjustment of 1d.)	379	16	8
		3,000	-	-			3,000	-	-

Dr. DEPRECIATION FUND INVESTMENT ACCOUNT[1] *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1					1				
Dec. 31	To Cash	379	16	7	Dec. 31	By Balance c/d	379	16	7
2					2				
Jan. 1	To Balance b/d	379	16	7	Dec. 31	By Balance c/d	774	17	-
	„ Cash (Instalment and Interest)	395	-	5					
		774	17	-			774	17	-
3					3				
Jan. 1	To Balance b/d	774	17	-	Dec. 31	By Balance c/d	1,185	13	5
	„ Cash	410	16	5					
		1,185	13	5			1,185	13	5
4					4				
Jan. 1	To Balance b/d	1,185	13	5	Dec. 31	By Balance c/d	1,612	18	6
	„ Cash	427	5	1					
		1,612	18	6			1,612	18	6
5					5				
Jan. 1	To Balance b/d	1,612	18	6	Dec. 31	By Balance c/d	2,057	5	5
	„ Cash	444	6	11					
		2,057	5	5			2,057	5	5
6					6				
Jan. 1	To Balance b/d	2,057	5	5	Dec. 31	By Balance c/d	2,519	7	10
	„ Cash	462	2	5					
		2,519	7	10			2,519	7	10
7					7				
Jan. 1	To Balance b/d	2,519	7	10	Dec. 31	By Cash (*proceeds of realisation of investments*)	3,000	-	-
	„ Cash	480	12	2					
		3,000	-	-			3,000	-	-

Note 1. The cash instalment at the end of the last year will not be invested, but will be transferred to the Investment Account money so that the full amount will be in hand with which to purchase the new Lease.

Note 2. The Lease Account and the Depreciation Fund Investment Account will appear on the assets side of the Balance Sheet until the end of the period. The Depreciation Fund Account will show on the liabilities side of the Balance Sheet until the end of the period; or, better still, on the assets side as a deduction from the Lease.

Income Tax on Interest from Investments. In the worked example, the Investments have been taken at par, and income tax has been ignored for the sake of simplicity, but, in practice, interest on investments would be received *less tax*. Sometimes instructions are given to invest the interest instead of remitting it; and in such cases a Cash Book entry as previously shown would not be required, but a Journal entry would be necessary to debit the Investment Account and credit the Depreciation Fund Account with the amount of such interest. In any case, however, the interest is always invested. To provide for the amount lost by reason of

[1] As the Funds would probably be invested in *various* securities, there would be several accounts amounting to this in the aggregate.

the tax, a similar sum is debited each year to Profit and Loss Account, and credited to the Depreciation Fund Account.

(5) Insurance Policy System

Nature and Use. Under this method an insurance policy is taken out for the amount required to replace the asset at the end of the period of its life. The procedure is not unlike that under the Depreciation Fund System, except that the cash, instead of being invested in gilt-edged securities, is paid away in premiums to the Insurance Company. Although the interest thus obtained is lower, yet there is not the risk of loss on realization, as in the case of outside investments subject to market fluctuations.

Entries in the Books. The entries in the financial books will vary according as a Policy Account is opened or not.

(a) When a Policy Account is Opened

In some cases, the amount paid as a yearly premium is debited to Lease Policy Account, and is regarded as an investment which increases by the addition of interest each year. At the date of the maturity of the policy the amount standing to the debit of the Lease Policy Account would agree (approximately) with the amount received from the insurance company. If, however, a balance were shown, this could readily be adjusted. In the event of the policy being surrendered before maturity, the amount actually received would be credited to the Lease Policy Account, and any loss shown on this account would be written off.

The entries in the books will be as under—

(*a*) For the purchase of the Lease—
By Lease on the *Cr.* side of Cash Book.

(*b*) For the annual premiums paid to Insurance Company—
By Lease Policy Account on *Cr.* side of Cash Book.

(*c*) For charging the Insurance, which takes the place of the annual depreciation, against Revenue—

(JOURNAL)

Profit and Loss A/c . . .	*Dr.*
To Lease Redemption Fund A/c .	*Cr.*

(*d*) For debiting the Interest on balance of Lease Policy Account—

(JOURNAL)

Lease Policy A/c	*Dr.*
To Lease Redemption Fund A/c .	*Cr.*

When the policy matures, the cash received will be debited in the Cash Book and posted to the credit of the Lease Policy Account, any balance being written off. The cash remains in hand ready to purchase the new lease. The Lease Redemption Fund Account will be closed by transfer to the (old) Lease Account. Until the end of the period, the Lease Account and the Lease Policy Account

will figure on the assets side of the Balance Sheet, while the Lease Redemption (or Depreciation) Fund Account will be shown on the liabilities side of the Balance Sheet.

Some accountants hold the view that the Policy Account should be maintained at surrender value.

Where such a system is in use, the entries are as above, except that no interest is charged, and in order to keep the Policy Account at its surrender value, an adjustment is necessary each year.

In the early years, when the surrender value is less than the amount paid for premiums, it would be necessary to credit Lease Policy Account and debit either Lease Redemption Fund Account or Profit and Loss Account; and, in the later years, when the surrender value exceeds the premiums paid, a reverse entry would be required. As an example, assume a premium of £100 and a nominal surrender value immediately after payment, say, £5. We should have to credit Policy Account with £95, and either debit Lease Redemption Fund Account (leaving a balance of only £5); or the Lease Redemption Fund Account could be left at the full amount (£100) and the Profit and Loss Account debited with the £95, in addition to the £100 already charged for insurance. As there would be no intention of discontinuing the policy, the above method is not recommended, and there seems to be no more need to keep the policy at surrender value than there is to write down new machinery to break-up price.

(b) When a Policy Account is not Opened

The entries in the books will be as follows—

(*a*) For the purchase of the Lease—
By Lease on the *Cr.* side of the Cash Book.

(*b*) For the annual premiums paid to the Insurance Company—
By Lease Insurance on the *Cr.* side of the Cash Book.

(*c*) For charging the Insurance, which takes the place of the annual depreciation, to Revenue—

(JOURNAL)

Profit and Loss . . .	*Dr.*
To Lease Insurance . .	*Cr.*

The Lease Account remains open in the books until the end of the period, figuring each year on the assets side of the Balance Sheet. When the policy matures, the cash received will be debited in the Cash Book and posted to the credit of the Lease Account, thus closing it, and leaving in hand the money with which to purchase the new lease (or other asset, as the case may be).

(6) Revaluation Process

Nature and Use. This method involves the process of stocktaking and valuing. It is adopted for assets which cannot always conveniently be dealt with under the other methods, namely, horses, casks, bottles, packages, loose tools, patterns, models,

moulds, trade-marks, copyrights, investments, etc. With many of these assets special considerations have to be taken into account. The difference arising from the revaluation is debited to Profit and Loss Account and credited to the Asset Account. If, however, the difference is a profit, instead of a loss, such appreciation is credited to Profit and Loss Account and debited to the Asset Account. Such instances, however, are rare. In certain cases, as with Investments, a loss or gain on revaluation is not carried to the Asset Account at all, but to a Reserve Account, as the difference may not be permanent, but only temporary.

Disadvantage of this Method. One disadvantage of writing off depreciation by this revaluation process is, that while the asset is rendering virtually the same services to the business year by year, the business is charged with very unequal sums each year in respect of these services.

(7) Charging one sum to cover Repairs, Renewals, and Depreciation

Nature and Use. As the name implies, this method is one in which a single amount is debited to Revenue annually for Repairs, Renewals, and Depreciation. The working of the method is shown in the illustration below—

Dr. PLANT ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
1932 Dec. 31	To Cash	10,000	-	-					
1933 Dec. 31	„ Additions	1,000	-	-					
		11,000	-	-					
1934 Dec. 31	„ „	2,000	-	-					
		£13,000	-	-					

Dr. DEPRECIATION ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
1933 Dec. 31	To Repairs and Renewals	50	-	-	1933 Dec. 31	By P. and L. A/c 5% on £10,000	500	-	-
„ 31	„ Balance	450	-	-					
		£500	-	-			£500	-	-
1934 Dec. 31	To Repairs and Renewals	100	-	-	Dec. 31	By Balance	450	-	-
„ 31	„ Balance	900	-	-	1934 Dec. 31	„ P. and L. A/c 5% on £11,000	550	-	-
		£1,000	-	-			£1,000	-	-
1935 Dec. 31	To Repairs and Renewals	300	-	-	1934 Dec. 31	By Balance	900	-	-
„ 31	„ Balance	1,250	-	-	1935 Dec. 31	„ P. and L. A/c 5% on £13,000	650	-	-
		£1,550	-	-			£1,550	-	-
					1935 Dec. 31	By Balance	1,250	-	-

It will be noticed that the additions are debited to Plant Account, and that the Repairs and Renewals are debited to Depreciation Account.

The balance of the Depreciation Account (which must always be a credit balance) shows the net amount set aside for depreciation and renewals. If the account became a debit, it would be evidence that the provision had not been adequate. When this method is used, it is desirable that the assets be re-valued periodically, and it may also be necessary after a term of years to vary the annual amount set aside.

There is frequently difficulty in discriminating between "Repairs" and "Renewals"; and as the latter may safely be added to capital where adequate depreciation has been written off, there may be a temptation to do this when it is not justified. Method (7) obviates that difficulty.

Depreciation of Loose Tools, etc. In engineering firms, where they make their own tools, the stocks of such at the commencement and the close of the financial period are entered in the Trading Account. The cost of making the tools is included in the Materials and Wages Accounts; as these two items are both debited to Trading Account, any difference between the two stocks of tools is, therefore, a proper charge to the same Account.

Rates of Depreciation generally Adopted. The following are the rates of depreciation generally adopted, though it is quite possible that special circumstances may make them higher or lower—

Freehold Land and Buildings, 1%–3% p.a.

Leasehold Land and Buildings, written off over the period of the lease.

Plant and Machinery, 5%–10% p.a.

Carts, Vans, Motor Lorries, etc., 10%–15% p.a.

Patents (life 16 years), $\frac{1}{16}$ of original cost each year. There is, sometimes, as with Trade Marks, a residual value in the form of Goodwill caused by the trade these things have created.

Furniture, Fixtures, and Fittings, 2½%–7½% p.a.

Blast Furnaces, Gas Retorts, and Chemical Plant (subject to rapid depreciation and constant repair with little or no break-up value), the original cost divided by the number of years' life.

Engines (*movable*), 10%; (*fixed*), 7½% p.a.

Boilers (*high pressure*), 15%; (*low pressure*), 10% p.a.

Driving Gear, 5%–7½% p.a.

Rolling Stock—

Locomotives, 10% p.a.

Wagons (life about 15 years), 7½% p.a.

Ships (life about 20 years), 5% p.a.

Casks (in breweries, distilleries, oil refineries), 10%–20% p.a., or re-valued yearly.

The above rates, except where otherwise stated, are for depreciation on diminishing balances, normal conditions, and hours of working being assumed.

SINKING FUNDS

Definition. A Sinking Fund is either (1) a charge against profits in order to provide for the replacement of a wasting asset such as a Lease, Plant and Machinery, etc., or (2) an appropriation of profits to repay a liability such as a Loan or Debentures. In each case, however, there is a corresponding amount of *cash* invested, so that the Sinking Fund may be immediately available when required, namely, by realising the investments. An example of a Sinking Fund to replace an asset has already been given under DEPRECIATION; an example of a Sinking Fund to repay a liability is shown hereunder —

Example. A sum of £6,000 is borrowed for a term of six years. It is resolved to provide for its repayment by means of a Sinking Fund, reckoning interest at 3 per cent per annum. Show the Ledger Accounts of same over the whole period.

Dr. LOAN ACCOUNT *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
6	To Cash (repaid) .	6,000	-	-	1	By Cash (borrowed) .	6,000	-	-

Dr. LOAN REDEMPTION FUND ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Balance c/d . .	927	11	8	1	By Appropriation A/c	927	11	8
2	To Balance c/d .	1,882	19	11	2	By Balance b/d . .	927	11	8
						„ Cash (Interest) .	27	16	7
						„ Appropriation A/c	927	11	8
		1,882	19	11			1,882	19	11
3	To Balance c/d . .	2,867	1	5	3	By Balance b/d . .	1,882	19	11
						„ Cash (Interest) .	56	9	10
						„ Appropriation A/c	927	11	8
		2,867	1	5			2,867	1	5
4	To Balance c/d . .	3,880	13	4	4	By Balance b/d . .	2,867	1	5
						„ Cash (Interest) .	86	-	3
						„ Appropriation A/c	927	11	8
		3,880	13	4			3,880	13	4
5	To Balance c/d . .	4,924	13	5	5	By Balance b/d . .	3,880	13	4
						„ Cash (Interest) .	116	8	5
						„ Appropriation A/c	927	11	8
		4,924	13	5			4,924	13	5
6	To Transfer to Special Reserve A/c .	6,000	-	-	6	By Balance b/d . .	4,924	13	5
						„ Cash (Interest) .	147	14	10
						„ Appropriation A/c (Adjustment of 1d.)	927	11	9
		6,000	-	-			6,000	-	-

Dr. LOAN REDEMPTION FUND INVESTMENT ACCOUNT Cr.

Year		£	s.	d.	Year		£	s.	d.
1	To Cash . . .	927	11	8	1	By Balance c/d . .	927	11	8
2	To Balance b/d . .	927	11	8	2	By Balance c/d . .	1,882	19	11
	„ Cash (Instalment plus Interest) .	955	8	3					
		1,882	19	11			1,882	19	11
3	To Balance b/d . .	1,882	19	11	3	By Balance c/d . .	2,867	1	5
	„ Cash . . .	984	1	6					
		2,867	1	5			2,867	1	5
4	To Balance b/d . .	2,867	1	5	4	By Balance c/d . .	3,880	13	4
	„ Cash . . .	1,013	11	11					
		3,880	13	4			3,880	13	4
5	To Balance b/d . .	3,880	13	4	5	By Balance c/d . .	4,924	13	5
	„ Cash . . .	1,044	–	1					
		4,924	13	5			4,924	13	5
6	To Balance b/d . .	4,924	13	5	6	By Cash . . .	6,000	–	–
	„ Cash . . .	1,075	6	7					
		6,000	–	–			6,000	–	–

Income Tax. As previously mentioned, the interest on the investments is received *less tax* at the current rate for unearned income. To provide for this loss, a similar amount is debited to the Appropriation Account and credited to the Loan Redemption Fund Account. The Ledger Account of the previous example would then appear as on next page.

Difference between a Sinking Fund to replace a Wasting Asset, and a Sinking Fund to repay a Liability. The difference should be very carefully noted by the student. In the first case, the accumulated profits are transferred to the Asset Account in order to close the latter. In the second case, the accumulated profits remain unused (the liability being repaid, not with profits, but with *cash* on account of these profits), and are transferred to Reserve Account. It shows very clearly that a Sinking Fund to replace a wasting asset is a *charge against* profits, and not an *appropriation of* profits, because the accumulations out of revenue are required, at the end of the period, to extinguish the Asset Account. Instead, therefore, of the asset being depreciated year by year, as in ordinary cases, it is depreciated in its entirety at the end of the period. Hence, the Sinking Fund instalment, being equivalent to the annual depreciation, must be debited to the *Profit and Loss Account*, and not to the Appropriation Account. In the case, however, of a Sinking Fund to repay a Liability, the accumulated profits, as we have seen, remain unused at the end of the period. This shows that they are actual appropriations of profit. Hence, the Sinking Fund instalment, in such cases, is debited to the *Appropriation Account*, and not to the Profit and Loss Account.

Dr LOAN REDEMPTION FUND ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Balance c/d.	927	11	8	1	By Appropriation A/c	927	11	8
2	To Balance c/d.	1,882	19	11	2	By Balance b/d.	927	11	8
						„ Cash (Interest less tax at 4s.).	22	5	3
						„ Approp. A/c (tax).	5	11	4
						„ Appropriation A/c	927	11	8
	£	1,882	19	11		£	1,882	19	11
3	To Balance c/d.	2,867	1	5	3	By Balance b/d.	1,882	19	11
						„ Cash (Interest less tax).	45	3	11
						„ Approp. A/c (tax)	11	5	11
						„ Appropriation A/c	927	11	8
	£	2,867	1	5		£	2,867	1	5
4	To Balance c/d.	3,880	13	4	4	By Balance b/d.	2,867	1	5
						„ Cash (Interest less tax)	68	16	2
						„ Approp. A/c (tax)	17	4	1
						„ Appropriation A/c	927	11	8
	£	3,880	13	4		£	3,880	13	4
5	To Balance c/d.	4,924	13	5	5	By Balance b/d.	3,880	13	4
						„ Cash (Interest less tax)	93	2	9
						„ Approp. A/c (tax)	23	5	8
						„ Appropriation A/c	927	11	8
	£	4,924	13	5		£	4,924	13	5
6	To Transfer to Special Reserve A/c	6,000	-	-	6	By Balance b/d.	4,924	13	5
						„ Cash (Interest less tax)	118	3	11
						„ Approp. A/c (tax)	29	10	11
						„ Appropriation A/c (Adjustment of 1d.).	927	11	9
	£	6,000	-	-		£	6,000	-	-

NOTE. The rate of tax has been taken as 4s. for convenience, the actual current rate being 5s. 6d. in the £.

RESERVES

A **Reserve** is defined as a charge made against profits, before arriving at the actual net profit, in order to make provision for an expected loss or liability, e.g. Bad Debts Reserve, Reserve for Discounts, Reserve for Audit Fee. Examples of these have already been given in previous chapters. A Dividend Equalization Reserve has also been explained in Chapter XIII.

Repairs and Renewals Reserve. The necessary repairs and renewals each year may vary considerably as regards cost. One year the amount may be small, the next year nothing, and the following year very large. To avoid Revenue being charged each year with very unequal sums, a fixed amount is debited annually to Profit and Loss, and credited to a Repairs and Renewals Reserve Account. The actual cost of such repairs and renewals is then debited to the Reserve Account instead of to Profit and Loss. The

balance of the Reserve Account, at balancing time, is carried to the Balance Sheet. Other names are also used for this Account, viz. Repairs Equalization Reserve, Maintenance Reserve, etc. The former term arises from the fact that the fixed amount debited to Profit and Loss Account each year *equalizes* the annual charges against Revenue in respect of repairs and renewals. The second term originates in the fact that this Reserve is used for the purpose of *maintaining* the fixed assets in an efficient condition for revenue-earning purposes. Unfortunately, however, these terms, when used by different writers, have not always the same signification. A Maintenance Reserve, in some cases, includes provision for depreciation. Again, the terms "repairs," "renewals," and "replacements" are used, by some writers, in a very uncertain sense. But, generally, "to repair" means to make efficient again, "renewals" signify the supplying of some small worn-out part or parts, and "replacement" denotes the provision of an entirely new, and perhaps improved, machine (or other asset).

Example. A Repairs and Renewals Reserve is created by charging Revenue each year with a fixed amount of £150. The repairs and renewals for the ensuing four years are: (1) £136 14s. 8d.; (2) £108 15s. 9d.; (3) £189 16s. 4d.; (4) £117 18s. 5d. Show the Journal, Ledger, and Balance Sheet entries relating to the above.

JOURNAL *Dr.* *Cr.*

Year		Dr. £	s.	d.	Cr. £	s.	d.
1	Profit and Loss A/c	150	–	–			
	To Repairs and Renewals Reserve A/c .				150	–	–
2	Repairs and Renewals Reserve A/c . .	136	14	8			
	To Repairs A/c				136	14	8
	Profit and Loss A/c	150	–	–			
	To Repairs and Renewals Reserve A/c .				150	–	–
3	Repairs and Renewals Reserve A/c . .	108	15	9			
	To Repairs A/c				108	15	9
	Profit and Loss A/c	150	–	–			
	To Repairs and Renewals Reserve A/c .				150	–	–
4	Repairs and Renewals Reserve A/c . .	189	16	4			
	To Repairs A/c				189	16	4
	Profit and Loss A/c	150	–	–			
	To Repairs and Renewals Reserve A/c .				150	–	–
5	Repairs and Renewals Reserve A/c . .	117	18	5			
	To Repairs A/c				117	18	5
	Profit and Loss A/c	150	–	–			
	To Repairs and Renewals Reserve A/c .				150	–	

Dr. REPAIRS ACCOUNT *Cr.*

Year		£	s	d	Year		£	s	d
2	To Cash . . .	136	14	8	2	By Repairs and Renewals Reserve A/c	136	14	8
3	To Cash . . .	108	15	9	3	By Repairs and Renewals Reserve A/c	108	15	9
4	To Cash . . .	189	16	4	4	By Repairs and Renewals Reserve A/c	189	16	4
5	To Cash . . .	117	18	5	5	By Repairs and Renewals Reserve A/c	117	18	5

Dr. REPAIRS AND RENEWALS RESERVE ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Balance c/d . .	150	–	–	1	By Profit and Loss A/c	150	–	–
		£150	–	–			£150	–	–
2	To Repairs A/c . .	136	14	8	2	By Balance b/d . .	150	–	–
	„ Balance c/d . .	163	5	4		„ Profit and Loss A/c	150	–	–
		£300	–	–			£300	–	–
3	To Repairs A/c . .	108	15	9	3	By Balance b/d . .	163	5	4
	„ Balance c/d . .	204	9	7		„ Profit and Loss A/c	150	–	–
		£313	5	4			£313	5	4
4	To Repairs A/c . .	189	16	4	4	By Balance b/d . .	204	9	7
	„ Balance c/d . .	164	13	3		„ Profit and Loss A/c	150	–	–
		£354	9	7			£354	9	7
5	To Repairs A/c . .	117	18	5	5	By Balance b/d . .	164	13	3
	„ Balance c/d . .	196	14	10		„ Profit and Loss A/c	150	–	–
		£314	13	3			£314	13	3
					6	By Balance b/d . .	196	14	10

BALANCE SHEET (AT END OF YEAR)

Year	*Liabilities*			£	s.	d.
1	Repairs and Renewals Reserve A/c . .			150	–	–
2	Repairs and Renewals Reserve A/c . .			163	5	4
3	Repairs and Renewals Reserve A/c . .			204	9	7
4	Repairs and Renewals Reserve A/c . .			164	13	3
5	Repairs and Renewals Reserve A/c . .			196	14	10

NOTE. If, owing to excessive expenditure in any year, the balance of the Repairs and Renewals Reserve Account is placed temporarily in debit, such balance would still be carried to the Balance Sheet, to be recouped in subsequent years. This would, however, be a clear indication that an insufficient amount had been provided in the past.

RESERVE FUNDS

Reserve Fund is the term applied to the profits that have been put by and allowed to accumulate in order to increase the financial stability of a limited company. It may be invested in the business itself, in which case it is represented by an undivided portion of the general assets; or it may be separately invested outside of the business, by taking an equivalent amount out of cash and buying Consols or other gilt-edged securities therewith.

Reserve Account. This is a term used by some eminent accountants to denote what others call a Reserve Fund, whenever the latter is not separately invested outside the business. They define a Reserve as the amount by which the assets side of the Balance Sheet exceeds the paid-up Capital and liabilities. When this surplus is represented by a separate investment, they call it a Reserve Fund; when it is not so represented, they term it a Reserve Account. Other leading accountants, however, do not agree with this, contending that the mere place of the Fund does not alter its character. So long as it is composed of assets acquired out of actual profits that have been reserved instead of divided, it is a Reserve Fund whether it is invested in the business itself or outside of it. A Reserve Account is also called a Surplus, a Margin, and a Rest. And further, it may be composed of transfers from Revenue, and also of Capital profits, such as Premiums on Shares, Profits prior to Incorporation, etc.

Should a Reserve Fund be Separately Invested? The object of investing a Reserve Fund outside the business is that the Fund may be made immediately available whenever the money is required, simply by realizing the investments. Whether it should be so invested or not depends entirely on circumstances. If the business has plenty of spare cash, then nothing could be urged against such a proceeding, provided sufficient is retained to take advantage of cash discounts and so reduce the cost of purchase, which would be a much better return than interest on Consols. Such a course, however, is not commendable when a business needs all the cash it possesses. It would, obviously, be foolish finance for a company to lock up its available cash in outside securities yielding 2½ or 3 per cent, and then borrow money at 4 or 5 per cent in order to carry on its business.

Difference between a Reserve and a Reserve Fund. A Reserve is merely a *charge against* profits; a Reserve Fund represents *actual* profits, which have been reserved instead of being divided.

Difference between a Reserve Fund and a Sinking Fund. A Reserve Fund is not made for any definite purpose, but merely for *contingencies*. A Sinking Fund is made for some *specific* purpose, such as the replacement of a wasting asset, or the repayment of a

loan or debentures. A Sinking Fund *must* be invested, a Reserve Fund *may*.

MARINE INSURANCE FUND

Object. The object of a Marine Insurance Fund is to enable large steamship companies to insure their own vessels, instead of paying premiums to outside insurance companies. Part of a ship or ships, or part of a fleet, is usually insured first, the remainder being insured with Lloyd's or other offices. This is done in order to prevent a heavy loss falling on the Fund while small, and possibly extinguishing it. As the Fund grows, the internal insurance operations are extended.

Method of Procedure. A certain amount of profit is appropriated year by year and credited to a Marine Insurance Fund, which is separately invested and allowed to accumulate, the interest received on such investments being also invested. The proportion applicable to each ship, an amount at least equal to the outside insurance premium, is debited to the voyage account and credited to the fund. The fund is also debited with all losses, average claims, salvage claims, reinsurances, expenses of administration, and losses (if any) on sale of the investments; it is credited with refunds, salvages, and interest accrued on the investments. The credit balance of the fund figures year by year on the liabilities side of the Balance Sheet, and the investments on the assets side.

Division of Profits. When the fund, after a proper valuation, is in excess of contingencies, the surplus is considered to be profit divisible like other profits.

SECRET RESERVES

A Secret Reserve is a surplus, the existence of which is not shown on the Balance Sheet.

How Secret Reserves are Made. Secret Reserves are made in various ways—

1. By excessive depreciation of assets, such as writing down premises, investments, etc., below their proper value.

2. By undervaluation or omission of assets. Assets may be shown at cost though they have greatly appreciated. Stock-in-trade may be valued much below its actual price. Some companies omit their goodwill, though it may be of enormous value. The Bank of England omits from its Balance Sheet the value of its premises.

3. By creating unnecessary or excessive Reserves for Bad Debts, Discounts, etc., or for fictitious liabilities.

4. By charging capital expenditure to revenue, as, for instance, debiting Additions to Buildings to the Profit and Loss Account

instead of to the Buildings Account. On the Balance Sheet the Buildings would thus appear at less than their proper value.

Advantages of Secret Reserves. The advantages claimed for them are—

1. They promote financial stability. Extraordinary losses can be met out of such " undisclosed " or " hidden surpluses " instead of out of Revenue, thus preventing the dividend being reduced and public confidence shaken. Banks and insurance companies often have recourse to such methods.

2. They enable a normal rate of dividend to be maintained—not only for the above reason (1), but also because they enable unduly fluctuating profits to be controlled, and steady, progressive results to be shown.

3. They advance the interests of the undertaking. By means of secret or " inner " reserves, huge profits can be concealed from business rivals, whereas the publication of such profits would stimulate competition, and perhaps injure the company's trade.

Disadvantages of Secret Reserves. The objections raised against the practice of creating secret reserves are—

1. The shareholders have not a full knowledge of the company's affairs, inasmuch as the published accounts are inaccurate and misleading. The Trading and Profit and Loss Accounts do not show the true profits. The Balance Sheet is not a correct representation of the state of affairs, because some of the liabilities may be overstated, while some of the assets may be undervalued and even omitted altogether.

2. Secret Reserves are dangerous resources. They may be utilized to meet exceptional losses sustained through depreciation of investments, etc.; they can, with equal facility, be used to conceal losses arising from bad management or reckless speculation.

3. Concealment of facts and manipulation of figures are bad in principle; and while they may, sometimes, serve the company's interests, they may also be, and frequently are by unscrupulous directors, used to the company's detriment. Suspicions may be aroused which will weaken or destroy confidence in the management much more quickly than a policy of straightforward dealing, even in adverse circumstances.

Whether or not a company is justified in creating secret reserves is a subject upon which much discussion has taken place. There is no doubt that in the case of banks and similar institutions, where the implicit confidence of the public is vital, the creation of secret reserves is to be recommended, as they are undoubtedly a source of strength to the business, and they enable these institutions to pass through periods of crisis and severe depression without the possibility of confidence being impaired in the slightest degree. The

case of those concerns to whom implicit public confidence is not vital is rather different, and there is not the same need for secret reserves. The practice of creating such reserves is favoured by some accountants and condemned by others. It would be unwise to dogmatize on the subject, as the position of each individual company must be considered, and it would have to be left to those who control the financial affairs of a business, as to whether or not secret reserves should be created.

QUESTIONS ON CHAPTER XVIII

A

1. Define Depreciation. Discriminate between Depreciation, Fluctuation, and Wear and Tear.
2. What are the causes of depreciation?
3. State briefly some of the reasons for charging depreciation.
4. Explain the meaning of the following terms: " Life " of an asset, " residual," or " break-up " value, to scrap, obsolescence. How is the loss sustained by obsolescence treated?
5. State briefly what is meant by the phrase: Repairs, renewals, and replacements.
6. What entries are necessary in the books when an asset is depreciated?
7. What methods of depreciation are there?
8. Explain briefly the nature and use of the " fixed instalment " method of depreciation. Can this method be advantageously used for all assets?
9. Explain briefly the nature and use of the " diminishing balance " method of depreciation? What advantages does this method possess?
10. State the mathematical formula for ascertaining the rate per cent of depreciation, when it is required to write down an asset, at an equal rate each year on the diminishing balance, in order to reduce it to residual value.

B

1. What methods are there in vogue with reference to the depreciation of " additions " to an asset? Give examples to illustrate your answer.
2. Explain briefly the nature and use of the " annuity system " of depreciation. What disadvantage attaches to it?
3. What is meant by " Depreciation Tables "? Explain briefly their construction and use.
4. Explain briefly the nature and use of the " depreciation fund principle " of depreciation. What other terms are used for Depreciation Fund?
5. What object is sought by investing cash on account of a Depreciation Fund? Is profit ever invested?
6. State briefly the procedure, at the end of the period, in connection with a Depreciation Fund Investment.
7. In what different ways can provision be made for depreciation of a Lease? Give examples.
8. How is the loss of interest on investments, by reason of income tax, adjusted in Depreciation Funds and Sinking Funds?
9. Explain briefly the nature and use of the " insurance policy system " of depreciation.

10. State briefly the entries required in the books under the "insurance policy method" of depreciation—

(*a*) When a Policy Account is opened.

(*b*) When a Policy Account is not opened.

State also in each case the procedure when the insurance policy matures.

C

1. Explain briefly the nature and use of the "revaluation process" of depreciation. What disadvantages attach to it?
2. State briefly the rates generally adopted in the case of some of the more general assets.
3. What is a Sinking Fund? Must there be an investment of cash in connection therewith?
4. State briefly the difference between a sinking fund to replace a wasting asset, and a sinking fund to repay a liability.
5. What is a Reserve? Name some of the more usual ones.
6. Explain the purpose and *modus operandi* of a Repairs and Renewals Reserve. Discriminate between "repairs," "renewals," and "replacements."
7. What is a Reserve Fund? Must it be separately invested? How does it differ from a Reserve Account? What is a Marine Insurance Fund?
8. Differentiate between a Reserve, a Reserve Account, a Reserve Fund, and a Sinking Fund. Explain the terms "surplus," "margin," "rest."
9. What is a Secret Reserve? How are Secret Reserves formed? State briefly the advantages and disadvantages of Secret Reserves.

EXERCISE XVIII

1. A Lease is purchased for a term of four years by payment of a sum of £440. Show how the Lease Account would appear in the books during this period, depreciation being written off by equal annual instalments.

2. Machinery is bought for £3,000. Its life is estimated to be six years, and its break-up value at the end of this period £534. Show the Machinery Account for the six years, writing off depreciation at a fixed rate per cent on the diminishing or reducing value of the asset.

3. Machinery is purchased for a sum of £3,000. Additions are made in June of the second year to the amount of £250, and in March of the third year to the extent of £320. Show by means of Ledger Accounts the various methods of dealing with these additions when writing off the annual depreciation, the rate of which is 10 per cent on the balance of the Plant and Machinery Account.

4. A Lease is purchased for a term of seven years by payment of £2,000. It is proposed to depreciate the Lease by the annuity method, charging 5 per cent interest. Show the Ledger Account of the asset during this period.

5. £2,000 is paid for a Lease for a term of seven years. It is desired to write this amount off by means of the depreciation fund method, it being necessary to raise a similar amount, at 5 per cent compound interest, in order to replace the Lease at the end of the period. Show the Ledger Accounts dealing with this matter.

6. A firm buys Plant and Machinery for £5,000. Its life is estimated at ten years. The firm decides to take out an insurance policy in order to provide for renewal. What entries will be necessary in the books?

7. A firm possesses Investments valued at the commencement of the year at £10,586. At the end of the year the Investments are re-valued at market price, and they are then found to be worth £8,972. How (if at all) would you deal with the matter in the firm's books and Balance Sheet? Supposing they had been valued at £11,000, how would you deal with the matter?

8. An engineering firm has Loose Tools valued at the commencement of the year at £1,026 15s. 11d. At the end of the year, stock is taken and the Loose Tools are found to amount to £1,207 11s. 4d. How would you deal with this matter in the firm's books? Supposing they had been valued at £987 10s. 5d., how would you deal with the matter?

9. A Repairs and Renewals Reserve is created by charging Revenue each year with a fixed sum of £200. The repairs and renewals for the ensuing four years are: (1) £159 17s. 9d.; (2) £125 14s. 6d.; (3) £269 15s. 3d.; (4) £225 16s. 11d. Show the Journal, Ledger, and Balance Sheet entries relating to the above.

10. Give definitions of, and differentiate, the following well-known terms: (*a*) Reserve; (*b*) Reserve Fund; and (*c*) Sinking Fund. In the case of a Limited Company, what would guide you in deciding as to whether an amount was a Reserve, or Reserve Fund? (*National Union of Teachers.*)

11. In what way, in a well-conducted Company business, are Leasehold Properties, Patent Rights, and Fixed Plant and Machinery, dealt with in the Company's books? Under what circumstances, and to what extent, ought a Company, registered under the Companies Acts to provide a Reserve Fund? (*London Chamber of Commerce.*)

12. How would you treat, in a Manufacturer's Books, works held under a Lease of which twenty years remained unexpired, the consideration for which stood in the Ledger at £3,500; and how would you treat Patent Rights expiring in ten years, the consideration for which stood in the same Trader's Ledger at £850? (*London Chamber of Commerce.*)

13. In preparing the Profit and Loss Account of a manufacturing firm, what different methods are there of providing for the waste of an asset owing (*a*) to wear and tear, as in the case of machinery; or (*b*) effluxion of time, as in the case of a building erected upon leasehold land?

What method do you favour for providing for such waste, and why? State briefly what entries would be required to carry your suggestions into effect? (*London Chamber of Commerce.*)

14. A company having a Lease standing in their books at £5,000, decide to provide for depreciation by taking out a policy for leasehold redemption. How would you deal with the annual premiums in the books; and how would you adjust the accounts when the Lease expires and the policy matures? (*Royal Society of Arts.*)

15. James Jowit & Co., printers, purchased three monotype machines on

1st January, at a cost of £1,000 each. The firm's engineer reports that, with care and proper repairs, the machines will remain efficient for ten years. At the end of that period, the machines will be sold. The current market price of machines of this type after ten years' use is about £100 each.

You are asked, as book-keeper to the firm, to advise as to how the depreciation on the above machines should be treated in the books of the firm. Submit alternative methods for the consideration of the partners, and state which you prefer, and why. (*London Chamber of Commerce.*)

16. What is a "Secret Reserve"? Give two examples showing how a bank, or other "financial house," could create a "Secret Reserve." (*Royal Society of Arts, Accounting and Banking.*)

17. The Directors of the Old Time Spinning Company decide to replace entirely their Plant, which is now out of date. Having advertised for tenders for the new machinery they require, they accept that sent in by Messrs. A B & Co., amounting to £8,850.

The old Machinery and Plant Account stood in the books of the Company at £5,400. There was also a Depreciation Fund in the books, the accumulated credit balance of which amounted to £1,050. Some of the materials composing the old machinery were found to be in good condition, and Messrs. A B & Co. agreed to take over shafting, etc., valued at £550, for use again; whilst the remainder was put up to auction and realized £1,200 (net).

Make the entries necessary to record these transactions in the books of the Old Time Spinning Company, and state how you would deal with the balance of the old "Machinery and Plant Account"? (*London Chamber of Commerce.*)

18. State briefly the facts that would guide you in arriving at the proper amount of depreciation to provide for upon the Machinery and Plant used in a manufacturing business; and set out the entries you would pass through the books to give effect to the decision arrived at. (*London Chamber of Commerce.*)

19. On 1st January, 1930, a Manufacturer buys Plant £2,000; on 1st July, 1931, he buys new Plant £400, and on 31st Dec. he sells for £160 Plant costing 1st Jan., 1930, £300. On 1st April, 1932, he buys new Plant £280, and on 1st Oct., 1933, sells for £70 Plant costing 1st July, 1931, £120. His plant is depreciated in the books annually at 31st Dec. at the rate of 5 per cent per annum on the original cost. At 31st Dec., 1934, he wishes to alter this method, for the whole period, to 7½ per cent per annum on the diminishing value. Prepare Machinery Accounts showing the result of both methods.

20. The following balances composed the Balance Sheet of John Brown, Limited: Cash £6,000, Bills Receivable £1,200, Sundry Debtors £2,500, Stock £5,000, Capital £10,000, Bills Payable £800, Sundry Creditors £1,400, Divisible Profit £2,500.

It was resolved to start a Reserve Fund with such an amount of the Balance of Profit as would, when invested, purchase £1,500 Consols at 85 (charges neglected).

You are requested to give the necessary Journal entries to effect this; then set out Ledger Accounts for Investments, Reserve Fund, and Profit and Loss; also draw up a new Balance Sheet showing these changes. (*National Union of Teachers.*)

21. Describe a Municipal Corporation's Sinking Fund—
(*a*) As to method of contributions to same.
(*b*) As to interest received on instalments invested.
(*Lancashire and Cheshire Union.*)

22. When calculating the annual Sinking Fund to replace the cost of a Lease, or other terminable benefit, why should Compound Interest be taken into account, thereby making the amounts carried to the Fund in the earlier years comparatively small, and in the later years comparatively large, instead of setting aside equal annual sums? (*Chartered Accountants.*)

23. On the 1st January the M N Co., Ltd., purchased the Lease of certain premises for £1,000. The Directors decided to form a Sinking Fund to accumulate this amount at the end of the Lease, which had five years to run, the rate of interest being taken at 3%. The requisite sum is to be transferred annually from Profit and Loss Account, and a corresponding amount invested in securities producing the required rate of interest. According to the Tables, £0·1884 per annum amounts to £1 in five years at 3%. Write up the Sinking Fund Account, the Sinking Fund Investment Account, and the Interest Account for the first three years. You may show your calculations in decimals. (*Chartered Accountants.*)

24. You, as Secretary of the National Industries Co., Ltd., receive from Mr. T. Head, a shareholder in the company, the following letter — "I have received from the National Industries Co., Ltd., a copy of its Balance Sheet of 31st December last. There is one point on which I am not quite clear, and that is the meaning of 'Reserve Fund, £50,000' on the Liabilities side of the Balance Sheet. It seems to me to be on the wrong side, for I cannot see how a Fund can be a liability. I shall be much obliged if you will explain the matter, and tell me where the 'Fund' is, and why it is not invested in outside securities."

Write an answer to this letter. The Reserve Fund in question has been accumulated out of trading profits. What would you substitute for the words "Reserve Fund" so as to avoid the above misunderstanding? (*Chartered Accountants.*)

25. Sometimes, provision is made for depreciation of plant by writing off a fixed proportion of the original cost in each year, and sometimes by writing off in each year a fixed percentage of the balance of the account as it stood at the commencement of that year. Supposing that it is desired to write machinery which cost £1,000 down to (say) £600 at the end of the fifth year, state the amount that would be charged against each year's profits under each of these two systems. (*Institute of Secretaries.*)

26. On 1st January the A Company, Ltd., acquired a fifty years' lease of its business premises, paying therefor £10,000. It was decided to provide for depreciation by setting aside £90 per annum as a Sinking Fund, and on 31st Dec., the amount so set aside had (with interest) accumulated to £2,400. On 31st December, 20 years later, the Directors obtained from an insurance company a policy assuring them the payment of £10,000 at the end of thirty years, in consideration of an annual premium of £220, the first premium being paid upon that date; and having thus provided for the redemption of Capital they gave instructions that the £2,400 accumulated during the past twenty years should be stated in the Balance Sheet dated 31st December, as "Reserve Fund."

Do you consider this treatment correct? Give reasons for your answer. (*Institute of Secretaries.*)

27. The X Co., Ltd., by its Articles of Association, is required to set aside and invest the sum of £1,000 per annum before declaring any dividends, in order to provide for the redemption of £40,000 Debentures redeemable in twenty-five years. At the end of that time the instalments so set aside have accumulated at compound interest to £41,645. The investments have been sold, and the Debentures repaid out of the proceeds of such sale. State how you would deal in the Company's B/S. with the credit balance of £41,645 representing the accumulation of the annual instalments. (*Institute of Secretaries.*)

28. State the different ways in which annual provision can be made to meet the depreciation of leasehold property. Which do you prefer? Give your reasons. (*Chartered Accountants.*)

29. A Trading Company takes out a Capital Redemption Policy with an Insurance Company to provide for a wasting Asset, paying £80 per annum premium. The premium is to be provided out of revenue. Give examples showing the entries to be made in the books of the Trading Company (1) annually, and (2) upon payment of the Capital sum by the Insurance Company. (*Chartered Accountants.*)

30. On 31st December the City Trading Co., Ltd., had a Debenture Reserve Fund of £50,000, represented by investments amounting to £59,000 2½ per cent Consols. The Company also had a balance in the Bank on Current account. at 30th June following of £6,000. The Debentures, amounting to £50,000, were paid off on 30th June. To provide for this the Consols were realized at 83 net, and the proceeds paid into the Bank on 30th June. Record the above transactions in the books of the Company, and show the Ledger Accounts affected. (*Chartered Accountants.*)

31. A Company insured for its own benefit the life of the managing director for £10,000, at an annual premium of £250. How would you expect the outlay to be dealt with in the accounts submitted to you for audit? (*Chartered Accountants.*)

32. The Turbine Steamer Co., Ltd., owns a Fleet of fourteen steamers trading to the Eastern Seas. These boats are at present insured in the ordinary way at Lloyd's, but the Company desires to effect its own insurance for the future. Explain briefly what steps should be taken to inaugurate an internal Marine Insurance Fund, and state what entries would appear in the books and annual accounts of the Company when the fund was in operation. (*Royal Society of Arts: Accounting and Banking.*)

REVISION EXERCISE XVIII

1. (I) Prepare from memory *pro forma* rulings of the following statistical books of a joint stock company—
   - (*a*) Application and Allotments Book.
   - (*b*) Call Book.
   - (*c*) Transfer Register.
   - (*d*) Share Ledger.
   - (*e*) Debenture Register.
   - (*f*) Register of Directors.

(II) Prepare a *pro forma* set of journal entries required to adequately record the purchase of a business by a company. Insert all necessary details to make the example a " live " one.

(III) (*a*) State the circumstances in which a limited company may pay interest on calls in advance. Make *pro forma* entries to record such payments.

(*b*) Is a limited company allowed to charge interest on calls in arrear. If so, give full particulars of the circumstances and their authority for making the charge.

(IV) Briefly outline the meaning of the following terms in connection with company work—

(*a*) Amalgamation.
(*b*) Reconstruction.
(*c*) Reorganization.

Also, state what you know about " fractional certificates " and the circumstances under which they arise.

2. Lewis & Co. sell and ship to Armstrong & Sons, Iquique, sundry goods

invoiced at cost	£1,004	11	8
The Freight Insurance and Dock Charges were .	89	6	4
The Buying and Shipping Commission charged was .	30	2	–
Total of Invoice was . .	£1,124	–	–

Lewis & Co. drew on Armstrongs for that amount, and secured an advance of £650 from the bankers through whom they were forwarding the documents. The draft was duly accepted.

At due date of draft Armstrongs paid one-half and gave a bill for the balance, plus 6 per cent interest per annum for six months.

The bankers were repaid their advance by Lewis & Co., and the extended bill was met at maturity by Armstrongs.

Frame Journal entries to record properly the whole of the above transactions in the books of (1) Lewis & Co., (2) Armstrong & Sons. (Narrations are essential.) (*Civil Service, 2nd Division Clerks.*)

3. The following items appear in a manufacturing company's books—

	£
Rent, Rates, and Taxes	1,200
Lighting, Heating, etc.	340
Total Wages and Salaries	4,900
Carriage Inwards	200
Plant, Repairs, and Renewals	185
Discounts on purchases	210
Discounts and Allowances made on Sundry Debtors Accounts	190
Managing Director's Remuneration	1,000

The factory portion of the premises is $\frac{4}{5}$ths of the whole building.

The office salaries and wages amount to £500.

Electric power charges amounting to £120 were included in the item of lighting, heating, etc., and an amount of £15 accrued for power had not been included.

Frame the necessary Journal entries to transfer the proper items to Trading Account or Profit and Loss Account as the case may be. (*Civil Service, 2nd Division Clerks.*)

4. A draws a bill of exchange on B, for goods supplied, for £10,000, dated 1st January, at six months, and, on B's acceptance of the same, discounts it

with C on 4th January, at 5 per cent per annum. The Bill is dishonoured at B's Bankers on presentation, the charges for noting and expenses being 5s. B pays A cash £4,000 on account on 5th July, and accepts three bills for the balance then due, together with interest at 5 per cent per annum, of equal amounts, payable at two, four, and six months respectively. Show these transactions in A's ledger. (*Chartered Accountants.*)

5. The Midland Steel Company, Limited, consigned to its Australian Agents, Murray & Co., of Sydney, 125 tons of Steel Bars per s.s. *Tantallon Castle.* Murray & Co. paid for Landing Charges £15, Carting £10, Warehousing £6, Insurance £1, and Advertising £5. On 1st July, they sold the Steel by auction as follows—

25	tons	at	£10	per	ton
30	,,	,,	£9 10s.	,,	,,
30	,,	,,	£9 5s.	,,	,,
40	,,	,,	£9	,,	,,

They charged commission at 5 per cent. Make out in proper form the Account Sales rendered by Murray & Co. to the Midland Steel Company, Limited, showing the balance due, for which Murray & Co. sent a Bill at 30 days after sight, and record the transactions in the books of Murray & Co. (*Chartered Accountants.*)

6. The X Y Company, Limited, keep their ledgers on the "self-balancing" system. On 31st December the Sales Ledger Account in the Private Ledger showed a debit balance, brought down 31st December of the previous year, of £4,031. During the year the total Sales were £35,422, and Returns Inwards were £625. The Cash received during the year and posted to the Sales Ledger was £31,125. The Discounts Allowed on accounts in the Sales Ledger amounted to £1,314. Transfers from the Bought Ledger to the Cr. of Sales Ledger Accounts, £720. Transfers from the Sales Ledger to the Dr. of Bought Ledger Accounts, £1,052. Bills Receivable posted to the Sales Ledger, £2,035. Write up the Sales Ledger Account and show the balance brought down at 31st December. What does this balance represent? (*Chartered Accountants.*)

7. P and Q are in partnership, and their annual Accounts are made up to 31st March. P died on 1st August following. Q paid the total amount due to P's representatives on 30th September. Their agreement provides that no interest is payable upon capital, but that on the death of a partner (which terminates the partnership) he is to be credited with a proportion of profit to the date of death, based upon his share for the preceding year, and thereafter with interest upon his capital at 5 per cent per annum. Any other sum to his credit also carries interest at 5 per cent per annum. P's capital, as shown by the last Balance Sheet, was £6,500. P's profit for the preceding year was £750, and was still undrawn at the date of death. Show the separate amounts payable to him for capital, profit, and interest to that date. (*Chartered Accountants.*)

8. On 1st January A admits B into partnership. The agreed value of the assets of A's business is as follows—

	£
Leasehold Premises . . .	2,000
Fittings and Furniture . .	480
Stock	4,600
Book Debts	800
Cash in hand	50

His liabilities to trade creditors amount to £1,500, and his indebtedness to his bankers is £2,950. Under the terms of partnership B pays £4,000 to his Bankers, of which £1,000 is credited to A as the purchase money of one-half

of the goodwill. Draft the Journal entries for opening the books of the partnership. (*Chartered Accountants.*)

9. On 1st January, the Balance Sheet of Ambrose & Co., was as follows—

	£		£
Sundry Creditors . .	5,000	Sundry Debtors . .	6,000
Bills Payable . . .	2,500	*Less* Reserve . .	100
Mortgage on Land and Buildings. . .	5,000		£5,900
Partners' Capital . .	23,500	Bills Receivable . .	600
		Land and Buildings . .	10,000
		Plant and Machinery .	7,000
		Horses and Vehicles . .	500
		Balance at Bank . .	2,000
		Stock on hand . .	8,000
		Work in progress . .	2,000
	£36,000		£36,000

By an agreement Messrs. Ambrose & Co., on 1st January, agreed to sell the business as a going concern to a company of the same name for the sum of £37,500.

The nominal capital of the company was £50,000, of which 10,000 shares of £1 each had been issued for cash, all paid on allotment.

The purchase consideration of £37,500 was to be satisfied by the allotment of £32,500 shares of £1 each and the payment of £5,000 in cash.

The whole of the assets were included in the sale with the exception of the balance at bank, and the company was to take over the whole of the liabilities with the exception of the mortgage, which was to be discharged by the vendors.

Included in the purchase price is an amount for goodwill.

(*a*) Frame the Journal entries to open the necessary accounts in the company's books upon completion of purchase, giving narrations in each case.

(*b*) Draw a Balance Sheet, showing the company's position at completion of purchase. (*Civil Service, 2nd Division Clerks.*)

10. The directors of a Limited Liability Company (having an authorized capital of £120,000), issue a prospectus inviting applications for 100,000 shares of £1 each, and stating that 10,000 shares will be issued in addition as fully paid to the Vendor in part payment of purchase money. 2s. 6d. per share is payable on application, 2s. 6d. per share on allotment, 5s. per share three months after allotment, and 10s. per share six months after allotment. The Capital offered was over-subscribed by 10,000 (ten thousand) shares. The amount due on allotment was received in full. The sum of £24,000 was received in respect of the first, and £48,000 in respect of the second call. The purchase money is stated to be £80,000, viz.—

	£
Land and Buildings	35,000
Stock and Work in Progress	15,000
Machinery and Plant	20,000
Goodwill	10,000
	£80,000

Make the Journal entries necessary to open the books of the company, and to record the payment of the instalments, stating where the details of calls in arrear should be found. (*Chartered Accountants.*)

11. The Silver Ore Company, Ltd., was formed on 1st April, with an Authorized Capital of £60,000, divided into 30,000 Ordinary Shares of £1 each and 30,000 5 per cent Cumulative Preference Shares of £1 each. The whole of the Ordinary Shares were issued and fully paid, but of the Cumulative Preference Shares 22,000 only were issued, and of these 21,900 were fully paid, but on the remaining 100 shares 15s. only had been paid. From the following Trial Balance prepare Balance Sheet, Trading Account, and Profit and Loss Account on 1st April following.

	Dr. £	s.	d.	*Cr.* £	s.	d.
Ordinary Share Capital				30,000	–	–
Preference Share Capital				21,975	–	–
Balance at Bank	10,550	–	–			
Crushing Plant and Machinery	4,000	–	–			
Cost to date of sinking Mine	2,000	–	–			
Land	20,000	–	–			
Expenses of promotion of Company	600	–	–			
Royalties paid	1,000	–	–			
Silver sold (cash)				17,000	–	–
Other minerals sold (including coal used by the Company)				950	–	–
Light Railway, cost	1,200	–	–			
Wages of Miners, etc.	6,900	–	–			
Wagons	500	–	–			
Bank Interest				270	–	–
Advertising	500	–	–			
Carriage paid on Crushing Plant and Machinery	180	–	–			
Erection of Sheds, etc.	1,500	–	–			
Legal Expenses	100	–	–			
Oil	200	–	–			
Repairs to Plant	90	–	–			
Coal bought	300	–	–			
Coal used from own Mines	150	–	–			
Office Furniture	150	–	–			
Salaries	2,000	–	–			
Interim preference dividend, paid 2nd Oct., 5 per cent per annum, less tax	521	18	2			
Cash in hand	53	1	10			
Directors' Fees	700	–	–			
Investment in Rosario Tin Mines, 2,000 Ordinary shares, £5 each, £4 paid	8,000	–	–			
Brokers' charges, etc., on same	100	–	–			
Dividend received thereon				320	–	–
Deposit Account at Bank, 3 per cent per annum	8,900	–	–			
Interest received to 31st December				120	–	–
Loose Tools	440	–	–			
	£70,635	–	–	£70,635	–	–

Depreciate Plant and Light Railway at 15 per cent per annum. Wagons are valued at £400, and Loose Tools at £300. Promotion Expenses to be charged over a period of three years. Value of Silver on hand, £1,500. On 21st December, the Directors decided to forfeit the 100 shares on which only 15s. has been paid up. (*Lancashire and Cheshire Union.*)

12. The following is a Trial Balance extracted from the books of the Pleasant Hotel Co., Ltd., on the 31st December, from which you are required to prepare Revenue Account and Balance Sheet.

Nominal capital, £25,000, divided into 10,000 5 per cent Cumulative Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each, and 5,000 Deferred Ordinary Shares of £1 each.

Issued—	£	s.	d.	£	s.	d.
8,500 5 per cent Cum. Preference Shares fully paid				8,500	–	–
9,000 Ordinary Shares fully paid				9,000	–	–
5,000 Deferred Ordinary Shares issued to Vendors as fully paid				5,000	–	–
Purchases—Beer, Wine, and Spirits, etc.	5,450	–	–			
Provisions	4,580	–	–			
Wages and Salaries	5,230	–	–			
Rates, Taxes, Insurance, Licences, etc.	1,890	–	–			
Laundry	313	–	–			
Takings—Beer, Wines, Spirits, etc.				7,862	–	–
Sales of Food				6,263	–	–
Coals	129	–	–			
Carriage and Porterage	236	–	–			
Sundry Trade Expenses	584	–	–			
Advertising	471	–	–			
Repairs	208	–	–			
Apartments				8,191	–	–
Billiards				212	–	–
Sundry receipts				159	–	–
Discounts received				390	–	–
Transfer Fees				6	–	–
Freehold Land and Buildings	35,000	–	–			
Furniture and Fittings	3,671	–	–			
Stock on hand, 1st January—						
Beer, Wines, Spirits, etc.	2,128	–	–			
Provisions	320	–	–			
Cash in hand	123	12	11			
Parr's Bank, Ltd.				2,212	–	–
Preliminary expenses of formation of Company	864	–	–			
200 4½ per cent 1st Mortgage Debentures of £100 each				20,000	–	–
Debenture Interest paid less tax to 31st October	706	5	–			
Profit and Loss Account, 1st January				1,510	–	–
Sundry Creditors				4,980	–	–
Investments	5,069	–	–			
Goodwill at cost to Company	10,000	–	–			
Interim Dividend on Preference Shares, half-year to 30th June	200	2	1			
Reserve Fund				5,000	–	–
Debtors for apartments not yet entered	152	–	–	152	–	–
Additions to freehold	2,112	–	–			
	£79,437	–	–	£79,437	–	–

Reserve for Debenture Interest, less tax at 1s. 2d. in the £; Wages and Salaries, £128. Stock, 31st December: Beer, Wines, Spirits, etc., £2,520; Provisions, £164.

Depreciate Furniture and Fittings 5 per cent for the year; Land and Buildings nil.

Also make out Profit and Loss Appropriation Account assuming that after the Ordinary shareholders are allowed 10 per cent free of tax, it is suggested the Deferred Ordinary shareholders are to be paid a dividend of 10 per cent free of tax, and the balance carried forward to next year. (*Lancashire and Cheshire Union.*)

13. THE *WEEKLY BANNER*, LIMITED

TRIAL BALANCE—31st March

	£	s.	d.	£	s.	d.
Cash Sales (Newspapers)				642	6	2
Agents' Sales				4,397	13	3
Advertisements charged				6,869	18	7
Cash in hand	53	5	5			
Agents' Returns	359	2	4			
Sundry Printing Sales				12	15	3
Advertisers' Prepayments, unexhausted				37	9	–
Copyright	2,000	–	–			
Machinery and Plant, 1st April	9,000	–	–			
Freehold Property	4,000	–	–			
Office Furniture	120	–	–			
Bank	3,630	8	–			
Revenue Surplus, 1st April				1,530	7	1
£7,000 Consols 2½ per cent at cost	5,869	–	4			
Reserve Fund Account				400	–	–
Discount allowed	103	11	1			
Paper, Ink, etc., Account	2,960	13	8			
Trade Expenses	170	6	10			
Wages	4,845	13	–			
Discount received				379	4	3
Bad Debts	90	17	6			
Interest on Consols (9 months received)				123	11	11
Advertisements in other papers	76	7	4			
Fuel, etc.	157	2	4			
Repairs	206	16	5			
Rent of Branches, Rates, and Taxes	129	8	8			
Correspondence Fees	368	2	4			
Printing and Stationery	108	15	6			
New Plant bought 1st October	400	–	–			
Telephone	78	8	11			
Billposting and Carriage	225	16	9			
Insurance	48	10	–			
Postage and Telegrams	187	12	2			
Travelling Expenses	195	16	10			
Share Capital 4,660 £10 shares £5 called up				23,300	6	–
Bank Interest				125	–	–
Creditors				850	–	10
Agents' Debit Balances	579	1	5			
Subscribers' „	38	4	4			
Advertisers' „	2,758	12	5			
Sales to Subscribers				84	1	7
Credit Balances				10	19	8
Subscribers' 10 £1 shares "Yellow Press Co., Ltd.," no value	2	–	–			
	£38,763	13	7	£38,763	13	7

Wages owing, £95 16s. 4d.
3 months' interest less Tax @ 1s. 2d. in £ due on Consols.
The Stocks at 31st March are: Paper, Ink, etc., £324 10s.; Fuel, £3 10s.
Telephone, £25 is prepaid.
Reserve £150 for estimated costs in Libel Action.
Reserve £50 for Bad Debts.
Depreciation on Plant 7½ per cent per annum.
,, on Furniture 5 per cent per annum.
Provide 10 per cent for allowances on Advertisers' debts.
Write down Consols to 79½ per cent.
Provide Managers' commission 5 per cent on year's profits before crediting any interest or charging loss on Investments.
Prepare Balance Sheet and Trading Account for year ending 31st March. (*West Riding of Yorkshire.*)

CHAPTER XIX

BRANCH ACCOUNTS, FOREIGN EXCHANGE, FOREIGN BRANCHES

Divisions of the Subject. Branch Accounts are generally divided into three main classes—

1. Where the branch book-keeping is done at the Head Office, the branch supplying the necessary information, or, as it is termed, making returns.
2. Where the branch keeps its own books, and at balancing time forwards a copy of its trial balance for incorporation in the Head Office books.
3. Foreign branches.

Each of the first two classes is subdivided according as the branch is retail or wholesale. Moreover, the kind of business itself exercises a not unimportant influence upon the method of book-keeping. In some trades, the stock is of a perishable nature, in others, it remains good indefinitely; obviously, therefore, it cannot be dealt with in the same way in both cases.

Transfer of Stock to Branches. When a branch is opened and stock is transferred to it from the head establishment, this transfer should not be treated as a sale; for it is not a proper sale, but merely an issue of goods. The value of the goods should be debited to a Branch Account, and credited to a special account entitled "Goods sent to Branches." At balancing time this latter account is closed by transfer to Trading Account.

Example. On 1st January a branch establishment was opened, and stock value £1,000 was transferred thereto. Show the Journal and Ledger entries recording this transaction.

JOURNAL

		Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
19—							
Jan. 1	Branch A/c	1,000	–	–			
	To Goods sent to Branches .				1,000	–	–

LEDGER

BRANCH ACCOUNT

Dr.		£	*s.*	*d.*			£	*s.*	*d.* *Cr.*
19—									
Jan. 1	To Goods to Branches .	1,000	–	–					

GOODS SENT TO BRANCHES

Dr.		£	*s.*	*d.*			£	*s.*	*d.* *Cr.*
19—					19—				
Dec. 31	To Trading A/c .	1,000	–	–	Jan. 1	By Branch A/c .	1,000	–	–

Dr. TRADING ACCOUNT *Cr.*

				19—		£	s.	d.
				Dec. 31	By Sales (say) .	15,460	10	6
				" 31	Goods to Branches .	1,000	-	-

The goods sent to the branches thus appear in the Trading Account separately from the sales, instead of being merged in them. Supposing such issues of goods had been entered in the Day Book like ordinary sales, even though they had been charged to the branch at actual cost, i.e. no credit taken for any profit, yet the turnover shown by the books would be entirely fictitious, and therefore useless for the purposes of comparison or as a basis for financial calculations.

Branch Supplies Book. Where there are several branches, each supplied with goods from the head establishment, a tabular " Goods Sent to Branches " or " Branch Supplies " book is employed. The totals of the columns are debited periodically to the separate Branch Accounts and credited to a " Goods Sent to Branches " Account. The following is a facsimile of the ruling—

Date	Particulars	Fo.	Total	Branch A	Branch B	Branch C

How Goods are Invoiced to the Branch. When branches are opened, the goods supplied to the branches may be charged out to them (according to the nature of the business)—

(1) At cost.
(2) At a fixed percentage on cost.
(3) At selling price.

In the " multiple shop " system, that is, where there is one head establishment with numerous selling depots, the goods are charged to the branches at selling price. This procedure establishes a definite check upon such branches. What a branch cannot produce in money, it must have in stock (taken at selling price); and frequent stock-taking will reveal whether there is any leakage or not.

Where goods are charged to the branches at a price other than actual cost, i.e. at a percentage on cost, or at selling price, the Branch Supplies Book would be ruled with duplicate columns for each branch. One column would record the cost price, for the purpose of the Trading Account; the other column would contain the

invoice price, so as to facilitate the debiting of the respective branches therewith. The following is a specimen of such ruling—

Date	Particulars	Total		Branch A		Branch B	
		Cost Price	Invoice Price	Cost Price	Invoice Price	Cost Price	Invoice Price

Branch Receipts and Payments. The money received by the branch for the Cash Sales, and on Ledger Accounts where goods are also sold on credit, is either paid in daily at some local bank to the credit of the Head Office Account, or else remitted every day direct to Head Office. The expenses of the branch, such as Rent, Rates and Taxes, Wages, Petty Charges, etc., are paid, in some cases, by cheque direct from the Head Office, and, in other cases, by means of the imprest system; whatever the branch spends for such purposes out of the original sum advanced to it, is repaid to the branch by the Head Office. In a few instances, however, the wages and expenses are paid out of the cash takings, and only the balance remitted to the head establishment. The Cash Book kept by the Head Office generally contains extra columns on each side to record the receipts from, and payments to, the various branches, the totals of these columns being posted periodically to the Branch Accounts. The branch itself is provided with a small Cash Book for the purpose of recording its daily takings and any petty disbursements.

Branch Returns. In most cases, the branch is called upon by the Head Office to make what are termed "Returns." Where the branch sales are exclusively cash, the branch would simply make returns of—

(1) Its daily takings, with a departmental analysis of such cash sales if necessary;

(2) Its wages and other expenses, likewise dissected if desired;

(3) Any commission that had accrued to the assistants or manager; and

(4) Such statistical information respecting its present stock and future requirements as the Head Office may direct.

But where the sales are partly cash and partly credit, additional particulars have to be furnished, i.e. in connection with the debtors—

(5) What accounts have been settled since the last return;

(6) The cash received, the discounts, returns, and allowances in connection with such settlements;
(7) What debts have become doubtful or bad;
(8) Particulars of the credit sales since the last return;
(9) The debtors outstanding at the date of the current return.

The branch itself usually keeps a small Ledger for the Debtors' Accounts. From the information thus furnished by each branch, the Head Office is enabled to write up the various Branch Accounts.

I. (a) RETAIL BRANCHES

Example 1. From the following particulars prepare the Branch Account as it would appear in the Head Office books. The branch sales are for cash only, and the goods sent to the branch have been invoiced at cost price—

	£	s.	d.
Goods from Head Office	5,360	11	2
Returns to Head Office	47	7	11
Rates, Taxes, and Insurance paid	75	12	5
Wages paid	365	4	8
Cash remitted to Head Office	6,650	14	8
Stock, 1st Jan.	750	10	6
Rent paid	130	10	6
Stock, 31st Dec.	790	16	6
Sundry Expenses paid	80	13	9

Dr. BRANCH ACCOUNT Cr.

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance	750	10	6	Dec. 31	By Cash	6,650	14	8
Dec. 31	" Goods from Head Office	5,360	11	2	" 31	" Returns to Head Office	47	7	11
" 31	" Cash (Wages)	365	4	8	" 31	" Stock c/d	790	16	6
" 31	" Cash (Rent)	130	10	6					
" 31	" Cash (Rates, Taxes, and Insurance)	75	12	5					
" 31	" Cash (Sundry Expenses)	80	13	9					
" 31	" Profit and Loss A/c (profit)	725	16	1					
		£7,488	19	1			£7,488	19	1
19— Jan. 1	To Balance b/d	790	16	6					

Percentage Added to Cost Price. Whenever goods are invoiced to the branch at a percentage on cost price, this percentage must be taken into account at balancing time, that is to say, the branch purchases, and opening and closing stocks, must be reduced to cost in order to arrive at the correct profit. In an office, the cost can be easily ascertained by reference to the Cost Price column in the Branch Supplies Book; but, in exercises and examination work, the cost must be found by arithmetical calculation. The student must remember that, if a percentage has been added to the cost of goods, the *same* percentage taken off will not reduce the goods to their original value. For example, suppose that £600 worth of goods

has been sent to a branch with $33\frac{1}{3}$ per cent added to the cost; the goods would then have been invoiced to the branch at £800. Now, $33\frac{1}{3}$ per cent taken off £800 will not reduce it to its original figure of £600; the following reasoning proves this— On every £$133\frac{1}{3}$, £$33\frac{1}{3}$ has been added; the increase is, therefore, $\frac{33\frac{1}{3}}{133\frac{1}{3}}$ or $\frac{1}{4}$th; and one-fourth must, consequently, be taken off in order to bring the amount down to cost. In the following example (2), the goods received from Head Office, and also the stocks at the commencement and end of the trading period, have been decreased by one-fourth before being dealt with.

Example 2. From the particulars furnished hereunder, write up the Branch Account in the Head Office books. The branch sales are exclusively cash, and the goods sent to the branch have been invoiced at $33\frac{1}{3}$ per cent on cost—

	£	s.	d.
Goods sent to Branch *less* Returns	7,200	15	4
Wages and Salaries paid	380	12	9
Cash remitted by Branch	7,068	15	6
Stock, 1st Jan.	900	12	8
Rates, Taxes, and Insurance paid	85	3	11
Rent paid	150	10	6
Stock, 31st Dec.	1,020	18	4
Sundry Expenses paid	42	11	7

Dr. BRANCH ACCOUNT *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance (Stock) .	675	9	6	Dec. 31	By Cash . . .	7,068	15	6
Dec. 31	„ Goods from Head Office . .	5,400	11	6	„ 31	„ Stock c/d . .	765	13	9
„ 31	„ Cash (Rates, Taxes, and Insurance) .	85	3	11					
„ 31	„ Wages and Salaries .	380	12	9					
„ 31	„ Rent . . .	150	10	6					
„ 31	„ Sundry Expenses .	42	11	7					
„ 31	„ Profit and Loss (net profit) . . .	1,099	9	6					
		£7,834	9	3			£7,834	9	3
19—									
Jan. 1	To Balance (Stock) b/d .	765	13	9					

Branch Accounts with Double Money Columns. Where the Ledger accounts contain double money columns, one to record the invoice price, and the other the cost price, such columns possess the great advantage of showing clearly, and at a glance, both the nominal and the actual gross profits. The percentage added to the cost price, when invoicing goods to the branch, is usually the estimated or expected rate of gross profit on cost. And when the Branch Trading Account is made up at the actual invoice figures, both sides should, theoretically, agree. A balance, if any, indicates that more, or less, than the anticipated gross profit is being made. In the following example, which is a re-working of Example 2, but with double money columns, the actual gross profit is short of what it ought to

Dr. **BRANCH ACCOUNT** *Cr.*

Date		Particulars	Invoice Price £	s.	d.	£	s.	d.	Date		Particulars	Invoice Price £	s.	d.	£	s.	d.
19..									19..								
Jan.	1	To Balance (Stock)	900	12	8	675	9	6	Jan.-Dec.		By Cash	7,068	15	6	7,068	15	6
Jan.-Dec.		„ Goods from Head Office	7,200	15	4	5,400	11	6	Dec.	31	„ Stock c/d	1,020	18	4	765	13	9
Dec.	31	„ Balance (gross profit)				1,758	8	3	„	31	„ Balance (apparent loss)	11	14	2			
			£8,101	8	–	£7,834	9	3				£8,101	8	–	£7,834	9	3
Dec.	31	To Rates, Taxes, and Insurance				85	3	11	Dec.	31	By Gross Profit				1,758	8	3
„	31	„ Wages and Salaries				380	12	9									
„	31	„ Rent				150	10	6									
„	31	„ Sundry Expenses				42	11	7									
„	31	„ Profit and Loss A/c (net profit)				1,099	9	6									
						£1,758	8	3							£1,758	8	3
19..																	
Jan.	1	To Balance (Stock)	1,020	18	4	765	13	9									

be by the sum of £11 14s. 2d. This fact would, in practice, lead to a search for a probable error, and possibly to an investigation as to whether the figures relating to the goods or money were being manipulated.

Branch Adjustment Account. Instead of employing double money columns to bring both sets of figures into account, the goods sent to the branch are sometimes posted to the Ledger at the invoice price only. It then becomes necessary to open a "Branch Adjustment Account" in addition to a "Goods Sent to Branches Account," if it is desired by means of proper double entry to ascertain the actual trading profit. This method, applied to the foregoing example (2) will provide the following Ledger accounts—

Dr. BRANCH ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Jan. 1	To Balance (Stock) *a*	900	12	8	Jan.-Dec.	By Cash remitted .	7,068	15	6
Jan.-Dec.	„ Purchases from Head Office *d*	7,200	15	4	Dec. 31	„ Stock c/d . *b*	1,020	18	4
					„ 31	„ Branch Adjustment A/c (apparent loss). . *c*	11	14	2
		£8,101	8	-			£8,101	8	-
19—									
Jan. 1	To Balance (Stock) b/d . . *e*	1,020	18	4					

Dr. BRANCH ADJUSTMENT ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Dec. 31	To Balance (% on Stock) c/d *b*	255	4	7	Jan. 1	By Balance (% on Stock) . *a*	225	3	2
„ 31	„ Branch A/c (apparent loss) . *c*	11	14	2	Jan.-Dec.	„ Goods to Branches A/c (% on Goods) *d*	1,800	3	10
„ 31	„ Branch Profit and Loss A/c (gross profit) . .	1,758	8	3					
		£2,025	7	-			£2,025	7	-
					19—				
					Jan. 1	By Balance b/d . *e*	255	4	7

Dr. GOODS SENT TO BRANCHES ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Dec. 31	To Branch Adjustment A/c . . *d*	1,800	3	10	Jan.-Dec.	By Branch A/c . .	7,200	15	4
„ 31	„ Transfer to Trading A/c (Goods at cost) . .	5,400	11	6					
		£7,200	15	4			£7,200	15	4

The credit balance of £255 4s. 7d. in the Branch Adjustment Account would be set-off against the debit balance of £1,020 18s. 4d. in the Branch Account, enabling the branch stock to be entered in the Stock Account and in the Balance Sheet at cost, namely, £765 13s. 9d. The Branch Adjustment Account shows a gross profit of £1,758 8s. 3d., which amount would be taken to a Branch

Profit and Loss Account. Against this gross profit would be debited the total of the branch expenses, viz. £658 18s. 9d. This would leave a net profit of £1,099 9s. 6d. to be carried to the general Profit and Loss Account—the same result as by the previous method.

Credit Sales by Branches. These are treated in different ways. Where the transactions are not very large or numerous, everything is passed through one Branch Account, the debtors being treated in the same way as stock at the commencement and close of the trading period. In some cases, however, a separate "Branch Debtors Account" is opened in addition to a "Branch Account." Where the turnover is sufficiently large to warrant it, the Branch Account itself is often divided into two parts, a "Branch Goods Account" and a "Branch Expenses Account," in order to show both gross and net profits.

Example 3. From the particulars given below, draw up the Branch Account or Accounts in the Head Office books. The goods sent to the branch have been invoiced at cost, and the branch makes both cash and credit sales—

	£	s.	d.
Goods received from Head Office	2,540	12	9
Returns to Head Office	40	3	7
Stock, 1st Jan.	750	11	8
Ready-money Sales	1,675	19	2
Six Months' Credit Sales to 30th June . . .	2,995	10	11
Allowances to Customers	16	11	8
Discounts allowed to Customers	120	18	5
Bad Debts	29	3	11
Rent, Rates, and Taxes	90	7	8
Returns from Customers	28	12	4
Wages and Salaries	297	15	6
Debtors, 1st Jan.	1,310	12	5
Stock, 30th June	695	6	6
Sundry Expenses	65	10	9
Cash received on Ledger Accounts	2,459	10	6
Debtors, 30th June	1,651	6	6

The simplest form would be the following, which is constructed on a *cash* basis, the debtors being treated as a form of stock—

Dr. BRANCH ACCOUNT *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance— Stock £750 11 8 Debtors 1,310 12 5	2,061	4	1	Jan.-June	By Cash— Ledger A/cs .	2,459	10	6
						Ready-money Sales . .	1,675	19	2
June 30	" Goods from Head Office . .	2,540	12	9	" "	" Returns to Head Office . .	40	3	7
" 30	" Rent, Rates, and Taxes . .	90	7	8	June 30	" Balance c/d— Stock £695 6 6 Debtors 1,651 6 6	2,346	13	–
" 30	" Wages and Salaries .	297	15	6					
" 30	" Sundry Expenses .	65	10	9					
" 30	" Profit and Loss A/c (net profit) . .	1,466	15	6					
		£6,522	6	3			£6,522	6	3
July 1	To Balance b/d . .	2,346	13	–					

A more elaborate form would be as follows—

Dr. BRANCH GOODS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Jan. 1	To Balance . .	750	11	8	June 30	By Cash Sales . .	1,675	19	2
Jan.-June	„ Goods from Head Office . .	2,540	12	9	„ 30	„ Credit Sales . .	2,995	10	11
„	„ Returns Inwards .	28	12	4	„ 30	„ Returns to Head Office . .	40	3	7
„	„ Allowances . .	16	11	8	„ 30	„ Stock c/d . .	695	6	6
„	„ Branch Profit and Loss A/c (gross profit) . .	2,070	11	9					
		£5,407	–	2			£5,407	–	2
July 1	To Balance (Stock) b/d	695	6	6					

Dr. BRANCH EXPENSES ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
June 30	To Rent, Rates, etc. .	90	7	8	June 30	By Transfer to Branch Profit and Loss A/c . . .	603	16	3
„ 30	„ Wages and Salaries .	297	15	6					
„ 30	„ Sundry Expenses .	65	10	9					
„ 30	„ Bad Debts . .	29	3	11					
„ 30	„ Discounts . .	120	18	5					
		£603	16	3			£603	16	3

Dr. BRANCH DEBTORS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Jan. 1	To Balance . .	1,310	12	5	Jan.-June	By Cash . . .	2,459	10	6
Jan.-June	„ Credit Sales . .	2,995	10	11	„	„ Discount . .	120	18	5
					„	„ Returns Inwards .	28	12	4
					„	„ Allowances . .	16	11	8
					„	„ Bad Debts . .	29	3	11
					„	„ Balance c/d . .	1,651	6	6
		£4,306	3	4			£4,306	3	4
July 1	To Balance b/d . .	1,651	6	6					

Dr. BRANCH PROFIT AND LOSS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
June 30	To Branch Expenses A/c	603	16	3	June 30	By Branch Goods A/c (gross profit) .	2,070	11	9
„ 30	„ Head Office Profit and Loss A/c (net profit) . . .	1,466	15	6					
		£2,070	11	9			£2,070	11	9

Depreciation of Assets. Where a branch possesses fixed assets such as furniture, fixtures, and fittings, the depreciation is often dealt with in the Head Office Depreciation Account only, as assumed in the previous examples. In some cases, however, it is charged against each particular branch, as in the following examples.

Example 4. From the undermentioned particulars construct the Branch Accounts as they would appear in the Head Office books. The branches are charged with the goods at selling price, the sales

being exclusively cash. The rate of gross profit is 25 per cent on selling price.

	Branch A.			Branch B.		
	£	s.	d.	£	s.	d.
Goods from Head Office	10,145	11	8	10,216	12	4
Returns to Head Office	48	2	4	46	10	8
Sales by Branch	9,626	11	4	9,818	–	8
Stock, 1st Jan.	1,275	10	4	1,684	11	4
Stock, 31st Dec.	1,726	17	8	1,986	15	4
Allowances off Selling Price	29	2	–	39	14	4
Sundry Expenses	95	11	6	120	19	5
Salaries and Wages	237	3	8	316	11	9
Depreciation of Furniture and Fixtures .	22	13	7	24	18	6
Rent, Rates, and Taxes	260	10	2	284	12	8
Excess in Stock at close	9	11	4			
Shortage in Stock at close				10	2	8

NOTES ON EXAMPLE. The selling price of goods is often subject to variation, according to the quantity taken. For instance, articles retailed at 1d. each may be sold at 9d. a dozen and 7s. 6d. a gross, and so on. A record is kept of these allowances off selling price, and the total is written off at the end of the period. Again, it occasionally happens that at stock-taking the stock is different from what it ought to be, being sometimes more, and sometimes less. These discrepancies must, of course, be adjusted at balancing time.

Dr. BRANCH "A" EXPENSES ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Dec. 31	To Salaries and Wages .	237	3	8	Dec. 31	By Transfer to Branch Profit and Loss A/c	615	18	11
„ 31	„ Rent, Rates and Taxes . . .	260	10	2					
„ 31	„ Sundry Expenses .	95	11	6					
„ 31	„ Depreciation of Fixtures, etc. . .	22	13	7					
		£615	18	11			£615	18	11

Dr. BRANCH "B" EXPENSES ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Dec. 31	To Salaries and Wages .	316	11	9	Dec. 31	By Transfer to Branch Profit and Loss A/c	747	2	4
„ 31	„ Rent, Rates, and Taxes . . .	284	12	8					
„ 31	„ Sundry Expenses .	120	19	5					
„ 31	„ Depreciation of Fixtures . . .	24	18	6					
		£747	2	4			£747	2	4

Dr. GOODS TO BRANCHES *Cr.*

		£	s.	d.			£	s.	d.
19—					19—				
Jan.-Dec.	To Branch "A" Returns	36	1	9	Jan.-Dec.	By Branch "A" . .	7,609	3	9
„	„ Branch "B" Returns	34	18	–	„	„ Branch "B" . .	7,662	9	3
Dec. 31	„ Trading A/c . .	15,200	13	3					
	£	15,271	13	–		£	15,271	13	–

BRANCH "A" ACCOUNT

Dr. | *Cr.*

Date		Invoice Price £	s.	d.	£	s.	d.	Date		Invoice Price £	s.	d.	£	s.	d.
19..								19..							
Jan. 1	To Balance (Stock)	1,275	10	4	956	12	9	Jan.-Dec.	By Cash	9,626	11	4	9,626	11	4
Jan.-Dec.	" Goods to Branches	10,145	11	8	7,609	3	9	"	" Returns to Head Office	48	2	4	36	1	9
Dec. 31	" Excess in Stock	9	11	4				"	" Allowances off Selling Prices	29	2	–			
" 31	" Branch Profit and Loss A/c (gross profit)				2,391	19	10	Dec. 31	" Balance (Stock) c/d	1,726	17	8	1,295	3	3
	£	11,430	13	4	10,957	16	4		£	11,430	13	4	10,957	16	4
19..															
Jan. 1	To Balance (Stock)	1,726	17	8	1,295	3	3								

BRANCH "B" ACCOUNT

Dr. | *Cr.*

Date		Invoice Price £	s.	d.	£	s.	d.	Date		Invoice Price £	s.	d.	£	s.	d.
19..								19..							
Jan. 1	To Balance (Stock)	1,684	11	4	1,263	8	6	Dec. 31	By Cash	9,818	–	8	9,818	–	8
Jan.-Dec.	" Goods to Branches	10,216	12	4	7,662	9	3	" 31	" Returns to Head Office	46	10	8	34	18	–
"	" Branch Profit and Loss A/c (gross profit)				2,417	2	5	" 31	" Allowances off Selling Price	39	14	4			
								" 31	" Shortage in Stock	10	2	8			
								" 31	" Balance (Stock) c/d	1,986	15	4	1,490	1	6
	£	11,901	3	8	11,343	–	2		£	11,901	3	8	11,343	–	2
19..															
Jan. 1	To Balance (Stock)	1,986	15	4	1,490	1	6								

Dr. BRANCH PROFIT AND LOSS ACCOUNT Cr.

19—		Branch "A." £	s.	d.	Branch "B." £	s.	d.	19—		Branch "A." £	s.	d.	Branch "B." £	s.	d.
Dec. 31	To Branch Expenses . .	615	18	11	747	2	4	Dec. 31	By Branch A/cs (Gross Profit) . .	2,391	19	10	2,417	2	5
" 31 / " 31	" Head Office Profit and Loss A/c (Net Profit)	1,776	–	11	1,670	–	1								
		£2,391	19	10	£2,417	2	5			£2,391	19	10	£2,417	2	5

Monthly Stock Accounts. Where goods are charged out to branches at selling price, or at a fixed percentage on cost, there is, of course, an adequate check on the stock; but where goods are invoiced at cost, there is no such check. In order to provide one, Approximate (or Estimated) Stock Accounts are prepared monthly, and recorded in a book kept specially for this purpose. These accounts enable the proprietor or directors to know at any time the value, approximately, of the stock on hand without going through the long and tedious process of stocktaking. Where the rate of gross profit is a fixed percentage of the selling price, a fairly accurate result may be obtained by adding to the stock at the commencement the subsequent net purchases, and deducting from the total the net sales for the same period, after reducing them by the said percentage of gross profit.

Example.

Dr. APPROXIMATE STOCK ACCOUNT Cr.

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Stock	2,850	–	–	Jan. 31	By Sales (less Returns) .	1,060	–	–
" 31	" Purchases (less Returns) . . .	550	–	–		Less (say) 25% .	265	–	–
							795	–	–
					" 31	" Balance (estimated Stock) c/d . .	2,605	–	–
		£3,400	–	–			£3,400	–	–
Feb. 1	To Balance b/d . .	2,605	–	–					

I. (b) WHOLESALE BRANCHES

Method of Keeping the Accounts. In wholesale branches, where the volume of trade is very much greater, and the transactions large and important in themselves, the accounts are kept in a manner somewhat similar to Departmental Accounts. Separate Stock, Purchases, Sales, and Returns Accounts are opened for each branch, thus, Branch "A" Stock Account, Branch "B" Stock Account; Branch "A" Purchases Account, Branch "B" Purchases Account; Branch "A" Sales Account, Branch "B" Sales

Account, etc. Expense accounts are kept for each branch; e.g. Branch "A" Wages, Branch "B" Wages; Branch "A" Rent, Rates, and Taxes, Branch "B" Rent, Rates, and Taxes; and so on. Separate Ledgers also are kept for each branch. For example, Branch "A" Debtors Ledger would contain the personal accounts of Branch "A" customers. Branch "A" General Ledger would record the branch asset accounts, such as horses and carts, fixtures and fittings, and also the nominal accounts, such as rent, rates and taxes, wages, discounts, bad debts, etc.

How the Buying is Done. The Head Office generally does all the buying; keeps the creditors' accounts in its own books, merely distributing the goods to its branches for sale. Sometimes, however, the branches are permitted to order, from outside, any goods they may require, the goods being sent direct to the branch, but invoiced to the Head Office.

How Goods Sold are Invoiced. When invoicing goods to customers, branches make out the invoice in triplicate; one copy is forwarded to the customer, one to the Head Office, and one retained by the branch for reference.

Example 5. From the undermentioned particulars relating to a Head Office and its two wholesale branches, prepare final accounts and Balance Sheet as they would appear in the Head Office books.

	Head Office	Northern Branch	Southern Branch
	£ s. d.	£ s. d.	£ s. d.
Stock, 1st Jan.	—	4,825 15 6	4,126 17 8
Debtors	—	17,346 10 2	14,986 10 9
Creditors	8,347 17 5	—	—
Discounts Earned	—	527 11 4	408 16 5
Bad Debts	—	633 6 8	524 19 2
Bills Payable	2,694 13 5	—	—
Purchases *less* Returns	—	11,876 14 4	9,756 12 10
Furniture, Fixtures, and Fittings	120 16 4	310 18 7	239 16 9
Horses, Harness, Vehicles, etc.	—	1,972 16 4	1,568 12 7
Salaries	985 14 6	—	—
Cash at Bank	8,906 2 1	—	—
Share Capital (24,000 Shares of £1 each, fully paid)	24,000 - -	—	—
Travellers' Salaries and Expenses	—	3,108 5 11	2,006 4 2
Directors' Fees	500 - -	—	—
Sales *less* Returns	—	27,659 16 11	22,914 17 5
Wages	—	2,397 15 2	1,716 11 8
Interim Dividend 8%	1,920 - -	—	—
Stock, 31st Dec.	—	5,802 18 6	4,950 14 8
Debenture Interest	425 - -	—	—
Reserve Fund Account	7,500 - -	—	—
Discounts Allowed	—	1,646 18 3	1,542 9 6
5% Debentures	8,500 - -	—	—
Carriage Inwards	—	510 9 3	458 13 2
Depreciation	13 8 6	234 10 11	186 13 -
Sundry Expenses	—	3,067 2 10	3,010 19 6
Rent, Rates, and Taxes	245 10 8	357 9 6	298 10 4
Horse and Stable Expenses	—	327 11 4	256 1 10
Cash in Hand	21 9 6	68 15 3	50 18 5
Reserve for Bad Debts, 5% Debtors.			

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

	Northern Branch			Southern Branch			Total				Northern Branch			Southern Branch			Total		
	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.
To Stock, 1st Jan.	4,825	15	6	4,126	17	8	8,952	13	2	By Sales (net)	27,659	16	11	22,914	17	5	50,574	14	4
„ Purchases (net)	11,876	14	4	9,756	12	10	21,633	7	2	„ Stock, 31st Dec.	5,802	18	6	4,950	14	8	10,753	13	2
„ Carriage Inwards	510	9	3	458	13	2	969	2	5										
„ Wages	2,397	15	2	1,716	11	8	4,114	6	10										
„ Balance (Gross Profit) c/d	13,852	1	2	11,806	16	9	25,658	17	11										
£	33,462	15	5	27,865	12	1	61,328	7	6	£	33,462	15	5	27,865	12	1	61,328	7	6
To Discounts Allowed	1,646	18	3	1,542	9	6	3,189	7	9	By Balance (Gross Profit) b/d	13,852	1	2	11,806	16	9	25,658	17	11
„ Bad Debts	633	6	8	524	19	2	1,158	5	10	„ Discounts Earned	527	11	4	408	16	5	936	7	9
„ Rent, Rates, and Taxes	357	9	6	298	10	4	655	19	10										
„ Travellers' Salaries and Expenses	3,108	5	11	2,006	4	2	5,114	10	1										
„ Sundry Expenses	3,067	2	10	3,010	19	6	6,078	2	4										
„ Horse and Stable Expenses	327	11	4	256	1	10	583	13	2										
„ Depreciation	234	10	11	186	13	–	421	3	11										
„ Bad Debts Reserve	867	6	6	749	6	6	1,616	13	–										
„ Balance (net profit)	4,137	–	7	3,640	9	2	7,777	9	9										
£	14,379	12	6	12,215	13	2	26,595	5	8	£	14,379	12	6	12,215	13	2	26,595	5	8

GENERAL PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19— *Cr.*

	£	s.	d.		£	s.	d.	£	s.	d.
To Rent, Rates, and Taxes . .	245	10	8	By Branch Profits—						
" Salaries . .	985	14	6	Northern Branch	4,137	–	7			
" Directors' Fees .	500	–	–	Southern Branch	3,640	9	2	7,777	9	9
" Debent'e Interest	425	–	–							
" Depreciation .	13	8	6							
" Balance (net profit for year) . .	5,607	16	1							
	£7,777	9	9					£7,777	9	9

BALANCE SHEET

AS AT 31ST DEC., 19—

Capital and Liabilities	£	s.	d.	£	s.	d.	*Property and Assets*	£	s.	d.	£	s.	d.
Share Capital— 24,000 Shares of £1 each, fully paid .				24,000	–	–	Horses, Harness, Vehicles, etc., less depreciation . .				3,541	8	11
5% Debentures .				8,500	–	–	Furniture, Fixtures, and Fittings, less depreciation. .				671	11	8
Reserve Fund A/c .				7,500	–	–	Stock-in-Trade .				10,753	13	2
Sundry Creditors .				8,347	17	5	Sundry Debtors .	32,333	–	11			
Bills Payable . .				2,694	13	5	*Less* Bad Debts Reserve . .	1,616	13	–	30,716	7	11
Profit and Loss A/c— Profit for Year .	5,607	16	1				Cash in Hand . .	141	3	2			
Less Interim Dividend . .	1,920	–	–	3,687	16	1	Cash at Bank . .	8,906	2	1	9,047	5	3
			£	54,730	6	11				£	54,730	6	11

Where the head establishment is a manufacturing concern, e.g. a factory which invoices the goods to its branches at a profit, there would be an extra column in the Trading Account, in order to show the trading profit of the factory as well as the trading profits of the branches.

II. BOOKS KEPT BY THE BRANCHES

Where the branches are semi-independent trading establishments, they generally do their own book-keeping, and at the end of the financial period forward a copy of their Trial Balance for the trading results to be incorporated in the Head Office books.

Head Office Account. Inasmuch as the Head Office finances the branch and supplies it with the greater part of its goods, there is a constant state of indebtedness on the part of the branch to the Head Office. The position is almost that of ordinary debtor and creditor, and is evidenced in the Head Office books by the *debit* balance of the Branch Account, and in the branch books by the *credit* balance of the Head Office Account. In the branch books

the Head Office Account takes the place of the Capital Account in an ordinary trader's books. Should a branch have opening entries to record in its ledger, the excess of assets over liabilities would not be shown as capital but as a debt due to the Head Office. The "Head Office Account" is known by various names; sometimes it is called the "Head Office Current Account," and sometimes the "Head Office Adjustment Account"; while the "Branch Account" in the Head Office books is also called the "Branch Current Account" or the "Branch Adjustment Account."

Remittance Account. To reduce the amount of its indebtedness, the branch remits at intervals a round sum of money to the Head Office. This money is sometimes credited direct to the Branch Account, and sometimes put to the credit of an intermediate Remittance Account. Much depends on how frequently the branch remits. Where remittances are made in moderate sums, and, are therefore, fairly numerous, a separate Remittance Account is of great advantage, as it keeps unnecessary details out of the Branch Account, thereby simplifying matters and making it very much clearer. At balancing time, however, the total of the Remittance Account must be transferred to the credit of the Branch Account, in order to show the correct amount the branch owes to the Head Office at that date. In the branch books, the Remittance Account is designated "Remittances to Head Office," the counterpart of this account in the Head Office books being styled "Remittances from Branch."

Goods and Remittances in Transit. It frequently happens at balancing time that the Branch Account, and also the Remittance Account, as shown by the Branch Trial Balance, do not correspond with their respective amounts as shown by the Head Office Trial Balance. This arises where the branch has forwarded a remittance to the Head Office on the last day of the trading period. The branch, of course, has debited its Remittance Account with amount remitted; but the Head Office, not having received it until the first day of the new trading period, has not credited its Remittance Account. It also occurs whenever the Head Office has forwarded goods to the branch on the last day of the trading period, and has debited the Branch Account. The branch, however, has not credited the Head Office, because it did not receive the goods on that date.

Before attempting the final entries, the balances of the Current Accounts and the Remittance Accounts must be made to agree. The amount of the goods received by the branch, after the close of the trading period, must be deducted from the Branch Account in the Head Office books and put to a Goods in Transit Account. The value of the remittance received by the Head Office, after the close of the trading period, must likewise be deducted from the

Remittance Account in the branch books and placed to a Remittance in Transit Account. The adjustments will be effected by means of Journal entries, and the transit items will then appear on the Balance Sheet. In the ensuing period the adjustments will be written back, i.e. fresh Journal entries will be made reversing the previous ones, thus closing the transit accounts.

Example. (For the sake of clearness, Trading and Profit and Loss Account items have been omitted and the other items summarized.)

HEAD OFFICE TRIAL BALANCE

31st Dec., 19.. *Dr.* *Cr.*

	£	s.	d.	£	s.	d.
Sundry Assets	12,621	15	9			
Capital				10,950	–	–
Sundry Creditors				3,128	18	5
Branch Current Account (£250 of this is for goods sent on 31st Dec.)	2,916	13	2			
Remittances from Branch				1,459	10	6
	£15,538	8	11	£15,538	8	11

BRANCH TRIAL BALANCE

31st Dec., 19.. *Dr.* *Cr.*

	£	s.	d.	£	s.	d.
Sundry Assets	1,457	2	4			
Sundry Creditors				369	19	8
Head Office Current Account				2,666	13	2
Remittances to Head Office (£120 of this represents a remittance made on the 31st Dec.)	1,579	10	6			
	£3,036	12	10	£3,036	12	10

The effect of the adjustments is as follows—

HEAD OFFICE TRIAL BALANCE

31st Dec., 19.. *Dr.* *Cr.*

	£	s.	d.	£	s.	d.
Sundry Assets	12,621	15	9			
Capital				10,950	–	–
Sundry Creditors				3,128	18	5
Branch Current Account	2,666	13	2			
Goods in Transit to Branch	250	–	–			
Remittances from Branch				1,459	10	6
	£15,538	8	11	£15,538	8	11

BRANCH TRIAL BALANCE

31st Dec., 19.. *Dr.* *Cr.*

	£	s.	d.	£	s.	d.
Sundry Assets	1,457	2	4			
Sundry Creditors				369	19	8
Head Office Current Account . .				2,666	13	2
Remittances to Head Office . .	1,459	10	6			
Remittance in Transit to Head Office	120	–	–			
	£3,036	12	10	£3,036	12	10

Eliminating the contra Current and Remittance Accounts, the Head Office Balance Sheet would be as under—

BALANCE SHEET as at 31st Dec., 19—

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Capital	10,950	–	–	Sundry Assets . . .	14,078	18	1
Sundry Creditors . .	3,498	18	1	Goods in transit to Branch	250	–	–
				Remittance in transit from Branch . . .	120	–	–
	£14,448	18	1		£14,448	18	1

Example 6. From the following Trial Balance of the branch books, prepare the necessary Journal entries to incorporate the figures in the Head Office books, and show the final accounts in the Branch Ledger and also in the Head Office Ledger.

BRANCH TRIAL BALANCE

31st Dec., 19.. *Dr.* *Cr.*

	£	s.	d.	£	s.	d.
Horses and Carts	275	11	8			
Furniture and Fixtures	72	14	3			
Sundry Debtors	1,075	15	3			
Sundry Creditors				211	14	9
Stock, 1st Jan.	750	19	2			
Purchases from Head Office . .	2,856	4	11			
Sales				3,975	18	10
Discounts Received				19	11	8
Rent, Rates, and Taxes . . .	93	1	4			
Sundry Expenses	65	9	10			
Depreciation	34	2	7			
Head Office Account				3,385	19	2
Cash in Hand	127	14	6			
Carriage Inwards	82	13	6			
Wages and Salaries	369	10	7			
Bad Debts	32	15	8			
Remittances to Head Office . .	1,680	–	–			
Discounts Allowed	76	11	2			
	£7,593	4	5	£7,593	4	5

Stock, 31st Dec., £825 15s. 4d.

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		Dr. £	s.	d.	Cr. £	s.	d.
19.. Dec. 31	Remittances from Branch .	1,680	–	–			
	To Branch Account . .				1,680	–	
	Balance transferred.						
„ 31	Branch Trading Account .	3,689	17	7			
	To Branch Account . .				3,689	17	7
	Stock, 1st Jan. £750 19 2						
	Purchases . 2,856 4 11						
	Carriage Inwards 82 13 6						
	Balances transferred.						
„ 31	Branch Account . . .	4,801	14	2			
	To Branch Trading Account				4,801	14	2
	Sales . . £3,975 18 10						
	Stock, 31st Dec. 825 15 4						
	Balances transferred.						
„ 31	Branch Trading Account .	1,111	16	7			
	Branch Account . . .	19	11	8			
	To Branch Profit and Loss Account . . .				1,131	8	3
	Gross Profit and Discounts Received transferred.						
„ 31	Branch Profit and Loss Account	671	11	2			
	To Branch Account . .				671	11	2
	Wages and Salaries £369 10 7						
	Rent, Rates & Taxes 93 1 4						
	Discounts Allowed 76 11 2						
	Sundry Expenses . 65 9 10						
	Bad Debts . . 32 15 8						
	Depreciation . 34 2 7						
	Balances transferred.						
„ 31	Branch Profit and Loss Account	459	17	1			
	To Head Office Profit and Loss Account . . .				459	17	1
	Net profit of Branch transferred.						

In Head Office Ledger

Dr. REMITTANCES FROM BRANCH Cr.

19—		£	s.	d.	19—		£	s.	d.
Dec. 31	To Branch A/c .	1,680	–	–	Jan.-Dec.	By Cash . . .	1,680	–	–

Dr. BRANCH ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Jan. 1	To Balance	529	14	3	19— Dec. 31	By Remittances from Branch	1,680	–	–
Jan.-Dec.	„ Goods	2,856	4	11	„ „	„ Branch Trading A/c	3,689	17	7
Dec. 31	„ Branch Trading A/c	4,801	14	2	„ „	„ Branch Profit and Loss A/c	671	11	2
„ „	„ Branch Profit and Loss A/c	19	11	8	„ „	„ Balance c/d	2,165	16	3
		£8,207	5	–			£8,207	5	–
19— Jan. 1	To Balance b/d	2,165	16	3					

Dr. BRANCH TRADING ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Branch A/c—				19— Dec. 31	By Branch A/c—			
	Stock	750	19	2		Sales	3,975	18	10
	Purchases	2,856	4	11		Stock	825	15	4
	Carriage In	82	13	6					
„ „	„ Branch Profit and Loss A/c (gross profit)	1,111	16	7					
		£4,801	14	2			£4,801	14	2

Dr. BRANCH PROFIT AND LOSS ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Branch A/c—				19— Dec. 31	By Branch Trading A/c (gross profit)	1,111	16	7
	Wages and Salaries	369	10	7	„ „	„ Branch A/c— Discounts Received	19	11	8
	Rent, Rates, and Taxes	93	1	4					
	Discounts Allowed	76	11	2					
	Sundry Expenses	65	9	10					
	Bad Debts	32	15	8					
	Depreciation	34	2	7					
„ „	„ Head Office Profit and Loss A/c (net profit)	459	17	1					
		£1,131	8	3			£1,131	8	3

In Branch Ledger

Dr. REMITTANCES TO HEAD OFFICE Cr.

		£	s.	d.			£	s.	d.
19— Jan.-Dec.	To Cash	1,680	–	–	19— Dec. 31	By Transfer to Head Office A/c	1,680	–	–

Dr. HEAD OFFICE ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Transfer from Remittance A/c	1,680	–	–	19— Jan. 1	By Balance	529	14	3
„ „	„ Balance c/d	2,165	16	3	Jan.-Dec.	„ Goods	2,856	4	11
					Dec. 31	„ Profit and Loss A/c (net profit)	459	17	1
		£3,845	16	3			£3,845	16	3
					19— Jan. 1	By Balance b/d	2,165	16	3

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19— *Cr.*

	£	s.	d.		£	s.	d.
To Stock, 1st Jan.	750	19	2	By Sales	3,975	18	10
„ Purchases from Head Office	2,856	4	11	„ Stock, 31st Dec.	825	15	4
„ Carriage Inwards	82	13	6				
„ Balance (gross profit)	1,111	16	7				
	£4,801	14	2		£4,801	14	2
To Wages and Salaries	369	10	7	By Gross Profit b/d	1,111	16	7
„ Rent, Rates, and Taxes	93	1	4	„ Discounts Received	19	11	8
„ Sundry Expenses	65	9	10				
„ Bad Debts	32	15	8				
„ Discounts Allowed	76	11	2				
„ Depreciation	34	2	7				
„ Head Office A/c (net profit transferred)	459	17	1				
	£1,131	8	3		£1,131	8	3

BALANCE SHEET

AS AT 31ST DEC., 19—

Liabilities		£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors		211	14	9	Cash	127	14	6
Head Office Account—					Sundry Debtors	1,075	15	3
Balance, 1st Jan.	£3,385 19 2				Stock	825	15	4
Less Remittances	1,680 – –				Horses and Carts (*less* depreciation)	275	11	8
	1,705 19 2				Furniture and Fixtures (*less* depreciation)	72	14	3
Add Profit	459 17 1							
		2,165	16	3				
		£2,377	11	–		£2,377	11	–

The foregoing method would apply to both retail and wholesale branches, the principal difference between the two being that, in the latter, the trade would assume much larger proportions, and the turnover might run into tens and hundreds of thousands, with the figures for other items correspondingly large.

Inter-Branch Transactions. Where there are several branches, each permitted to have credit dealings with the others, they will keep a Current Account with one another as well as with the Head Office. At balancing time, the balances of these Current Accounts will be liabilities and assets of the branches, as between themselves, but not liabilities of the business as a whole. When the General Balance Sheet is prepared in tabular or columnar form, they must be shown in their proper columns, in order to make the vertical totals agree. A columnar Balance Sheet, however, is only for the benefit of the business, and when the General Balance Sheet is framed, the balances of the Head Office Current Accounts, the Branch Current Accounts, and the inter-Branch Current Accounts, being contras, can easily be eliminated.

Example 7. Three partners, B. Brown, J. Jones, and S. Smith, have branch businesses working independently in London, Birmingham, and Dundee. Brown manages the London business, and receives two-thirds of the profits therefrom, the balance being shared equally between Jones and Smith. Jones manages the Birmingham business, receiving half of the profits therefrom, the balance being shared equally between Brown and Smith. Smith manages the Dundee business, receiving one-third of the profits therefrom, the balance being shared equally between Brown and Jones. The branches buy from, and sell to, one another at a small inter-branch profit.

From the following Trial Balances draw up a tabular Trading and Profit and Loss Account, and a Balance Sheet in (*a*) columnar form, (*b*) ordinary form. Credit each partner with interest on Capital at 5 per cent per annum, and depreciate Plant and Machinery at the rate of 10 per cent per annum. Show also the partners' Capital Accounts, and the Branch Current Accounts, in the respective Branch Ledgers.

LONDON TRIAL BALANCE

31st Dec., 19.. *Dr.* *Cr.*

	Dr. £	s.	d.	Cr. £	s.	d.
Plant and Machinery	5,408	6	4			
Cash in Hand	178	3	9			
Cash at Bank	7,157	12	2			
Current Accounts—						
Birmingham	2,029	16	7			
Dundee	1,970	18	6			
Stock, 1st Jan.	5,896	12	5			
Sundry Debtors	11,392	–	9			
Sundry Creditors				7,047	14	5
Purchases	36,421	11	8			
,, from Branches	2,857	14	3			
Sales				54,821	17	11
,, to Branches				1,723	17	8
Capital Account—B. Brown				18,862	3	10
Drawing Account—B. Brown	2,500	–	–			
Trade Expenses	172	19	2			
Wages	3,608	12	9			
Discounts Allowed	507	12	4			
Discounts Received				412	13	8
Printing and Stationery	220	18	4			
Advertising	286	10	9			
Carriage Inwards	526	14	5			
,, Outwards	817	11	2			
Salaries	627	6	8			
Bad Debts	287	5	6			
	£82,868	7	6	£82,868	7	6

Stock, 31st Dec., £5,648 13s. 2d.

BIRMINGHAM TRIAL BALANCE

31st Dec., 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Plant and Machinery	4,187	10	8			
Cash in Hand	94	13	4			
Cash at Bank	5,063	4	8			
Current Accounts—London				2,029	16	7
Dundee	864	9	10			
Stock, 1st Jan.	4,563	17	9			
Sundry Debtors	9,746	11	10			
Sundry Creditors				4,976	15	5
Purchases	28,198	4	10			
,, from Branches	2,673	10	2			
Sales				39,857	13	9
,, to Branches				3,163	11	6
Capital Account—J. Jones				12,183	18	4
Drawing Account—J. Jones	2,000	–	–			
Trade Expenses	104	19	7			
Wages	2,417	15	6			
Discounts Allowed	406	8	9			
Discounts Received				357	15	8
Printing and Stationery	107	13	10			
Advertising	216	18	6			
Carriage Inwards	419	19	5			
,, Outwards	796	4	11			
Salaries	508	10	6			
Bad Debts	198	17	2			
Stock, 31st Dec., £4,617 11s. 8d.	£62,569	11	3	£62,569	11	3

DUNDEE TRIAL BALANCE

31st Dec., 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Plant and Machinery	3,158	16	6			
Cash in Hand	76	11	4			
Cash at Bank	4,586	9	5			
Current Accounts—London				1,970	18	6
Birmingham				864	9	10
Stock, 1st Jan.	3,616	15	11			
Sundry Debtors	7,658	12	9			
Sundry Creditors				3,018	11	7
Purchases	23,839	16	8			
,, from Branches	2,272	9	5			
Sales				32,759	12	11
,, to Branches				2,916	4	8
Capital Account—S. Smith				9,175	10	7
Drawing Account—S. Smith	1,500	–	–			
Trade Expenses	78	19	5			
Wages	1,987	14	3			
Discounts Allowed	314	16	5			
Discounts Received				296	14	6
Printing and Stationery	92	18	6			
Advertising	186	13	3			
Carriage Inwards	386	17	2			
Carriage Outwards	687	15	4			
Salaries	413	6	4			
Bad Debts	143	9	11			
Stock, 31st Dec., £3,705 13s. 9d.	£51,002	2	7	£51,002	2	7

GENERAL TRADING AND PROFIT

FOR THE YEAR

	London			Birmingham			Dundee			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
To Stock, 1st Jan.	5,896	12	5	4,563	17	9	3,616	15	11	14,077	6	1
" Purchases	36,421	11	8	28,198	4	10	23,839	16	8	88,459	13	2
" " from Branches	2,857	14	3	2,673	10	2	2,272	9	5	7,803	13	10
" Wages	3,608	12	9	2,417	15	6	1,987	14	3	8,014	2	6
" Carriage Inwards	526	14	5	419	19	5	386	17	2	1,333	11	–
" Balance (Gross Profit)	12,883	3	3	9,365	9	3	7,277	17	11	29,526	10	5
£	62,194	8	9	47,638	16	11	39,381	11	4	149,214	17	–
To Discounts Allowed	507	12	4	406	8	9	314	16	5	1,228	17	6
" Carriage Outwards	817	11	2	796	4	11	687	15	4	2,301	11	5
" Bad Debts	287	5	6	198	17	2	143	9	11	629	12	7
" Printing and Stationery	220	18	4	107	13	10	92	18	6	421	10	8
" Advertising	286	10	9	216	18	6	186	13	3	690	2	6
" Salaries	627	6	8	508	10	6	413	6	4	1,549	3	6
" Trade Expenses	172	19	2	104	19	7	78	19	5	356	18	2
" Interest on Capital	943	2	2	609	3	11	458	15	6	2,011	1	7
" Depreciation of Plant and Machinery	540	16	8	418	15	1	315	17	8	1,275	9	5
" Balance (Net Profit)	8,891	14	2	6,355	12	8	4,882	–	1	20,129	6	11
£	13,295	16	11	9,723	4	11	7,574	12	5	30,593	14	3
To B. Brown	5,927	16	2	1,588	18	2	1,627	6	8	9,144	1	–
" J. Jones	1,481	19	–	3,177	16	4	1,627	6	8	6,287	2	–
" S. Smith	1,481	19	–	1,588	18	2	1,627	6	9	4,698	3	11
	£8,891	14	2	6,355	12	8	4,882	–	1	20,129	6	11

AND LOSS ACCOUNT

ENDING 31ST DEC., 19—

	London			Birmingham			Dundee			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
By Sales . . .	54,821	17	11	39,857	13	9	32,759	12	11	127,439	4	7
" " to Branches	1,723	17	8	3,163	11	6	2,916	4	8	7,803	13	10
" Stock, 31st Dec. .	5,648	13	2	4,617	11	8	3,705	13	9	13,971	18	7
£	62,194	8	9	47,638	16	11	39,381	11	4	149,214	17	-
By Gross Profit b/d .	12,883	3	3	9,365	9	3	7,277	17	11	29,526	10	5
" Discounts Received	412	13	8	357	15	8	296	14	6	1,067	3	10
£	13,295	16	11	9,723	4	11	7,574	12	5	30,593	14	3
By Net Profit b/d .	8,891	14	2	6,355	12	8	4,882	-	1	20,129	6	11
	£8,891	14	2	6,355	12	8	4,882	-	1	20,129	6	11

COLUMNAR BALANCE SHEET

Liabilities	London £	s.	d.	Birmingham £	s.	d.	Dundee £	s.	d.	Total £	s.	d.
Sundry Creditors	7,047	14	5	4,976	15	5	3,018	11	7	15,043	1	5
Current Accounts—												
London		—		2,136	15	9	2,116	6	2	4,253	1	11
Birmingham		—			—		902	18	4	902	18	4
Dundee		—			—			—			—	
Capital Accounts—												
B. Brown	26,449	7	–							26,449	7	–
J. Jones				17,080	4	3				17,080	4	3
S. Smith							12,832	10	–	12,832	10	–
£	33,497	1	5	24,193	15	5	18,870	6	1	76,561	2	11

GENERAL BALANCE SHEET (ORDINARY FORM)

Liabilities	£	s.	d.	£	s.	d.
Sundry Creditors				15,043	1	5
Capital Accounts—						
B. Brown, 1st Jan.	18,862	3	10			
Add Interest	943	2	2			
„ Share of Profits	9,144	1	–			
	28,949	7	–			
Less Drawings	2,500	–	–			
				26,449	7	–
J. Jones, 1st Jan.	12,183	18	4			
Add Interest	609	3	11			
„ Share of Profits	6,287	2	–			
	19,080	4	3			
Less Drawings	2,000	–	–			
				17,080	4	3
S. Smith, 1st Jan.	9,175	10	7			
Add Interest	458	15	6			
„ Share of Profits	4,698	3	11			
	14,332	10	–			
Less Drawings	1,500	–	–			
				12,832	10	–
				£71,405	2	8

AS AT 31ST DECEMBER, 19—

Assets	London			Birmingham			Dundee			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Cash in hand	178	3	9	94	13	4	76	11	4	349	8	5
Cash at Bank	7,157	12	2	5,063	4	8	4,586	9	5	16,807	6	3
Sundry Debtors	11,392	–	9	9,746	11	10	7,658	12	9	28,797	5	4
Current Accounts—												
London		—			—			—			—	
Birmingham	2,136	15	9		—			—		2,136	15	9
Dundee	2,116	6	2	902	18	4		—		3,019	4	6
Stock-in-Trade	5,648	13	2	4,617	11	8	3,705	13	9	13,971	18	7
Plant and Machinery (*less* depreciation)	4,867	9	8	3,768	15	7	2,842	18	10	11,479	4	1
£	33,497	1	5	24,193	15	5	18,870	6	1	76,561	2	11

AS AT 31ST DECEMBER, 19—

Assets	£	s.	d.	£	s.	d.
Cash in hand	349	8	5			
Cash at Bank	16,807	6	3			
				17,156	14	8
Sundry Debtors				28,797	5	4
Stock-in-Trade				13,971	18	7
Plant and Machinery (*less* depreciation)				11,479	4	1
				£71,405	2	8

In London Ledger

B. BROWN.—CAPITAL ACCOUNT

Dr. | *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Dec. 31	To Drawings . . .	2,500	–	–	Jan. 1	By Balance . . .	18,862	3	10
" 31	" Balance c/d . .	26,449	7	–	Dec. 31	" Interest . . .	943	2	2
					" 31	" Share of Profits—			
						London . .	5,927	16	2
						Birmingham . .	1,588	18	2
						Dundee . .	1,627	6	8
	£	28,949	7	–		£	28,949	7	–
					19— Jan. 1	By Balance b/d . .	26,449	7	–

BIRMINGHAM CURRENT ACCOUNT

Dr. | *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance . . .	2,029	10	7	Dec. 31	By Jones—Share of London profit . .	1,481	19	–
Dec. 31	" Brown—Share of Birmingham profit .	1,588	18	2	" 31	" Balance c/d . .	2,136	15	9
		£3,618	14	9			£3,618	14	9
19— Jan. 1	To Balance b/d . .	2,136	15	9					

DUNDEE CURRENT ACCOUNT

Dr. | *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance . . .	1,970	18	6	Dec. 31	By Smith—Share of London Profit . .	1,481	19	–
Dec. 31	" Brown—Share of Dundee Profit . .	1,627	6	8	" 31	" Balance c/d . .	2,116	6	2
		£3,598	5	2			£3,598	5	2
19— Jan. 1	To Balance b/d . .	2,116	6	2					

In Birmingham Ledger

J. JONES.—CAPITAL ACCOUNT

Dr. | *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Dec. 31	To Drawings . . .	2,000	–	–	Jan. 1	By Balance . . .	12,183	18	4
" 31	" Balance c/d . .	17,080	4	3	Dec. 31	" Interest . . .	609	3	11
					" 31	" Share of Profits—			
						Birmingham . .	3,177	16	4
						London . . .	1,481	19	–
						Dundee . .	1,627	6	8
	£	19,080	4	3		£	19,080	4	3
					19— Jan. 1	By Balance b/d . .	17,080	4	3

LONDON CURRENT ACCOUNT

Dr. | *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Dec. 31	To Jones—Share of London Profit . .	1,481	19	–	Jan. 1	By Balance . . .	2,029	16	7
" 31	" Balance c/d . .	2,136	15	9	Dec. 31	" Brown—Share of Birmingham Profit .	1,588	18	2
		£3,618	14	9			£3,618	14	9
					19— Jan. 1	By Balance b/d . .	2,136	15	9

Dr. DUNDEE CURRENT ACCOUNT Cr.

Date		£	s.	d.	Date		£	s.	d.
19— Jan. 1	To Balance	864	9	10	19— Dec. 31	By Smith—Share of Birmingham Profit	1,588	18	2
Dec. 31	" Smith—Share of Dundee Profit	1,627	6	8	" 31	" Balance c/d	902	18	4
		£2,491	16	6			£2,491	16	6
19— Jan. 1	To Balance b/d	902	18	4					

In Dundee Ledger

Dr. S. SMITH.—CAPITAL ACCOUNT Cr.

Date		£	s.	d.	Date		£	s.	d.
19— Dec. 31	To Drawings	1,500	–	–	19— Jan. 1	By Balance	9,175	10	7
" 31	" Balance c/d	12,832	10	–	Dec. 31	" Interest	458	15	6
					" 31	" Share of Profits—			
						Dundee	1,627	6	9
						London	1,481	19	–
						Birmingham	1,588	18	2
	£	14,332	10	–		£	14,332	10	–
					19— Jan. 1	By Balance b/d	12,832	10	–

Dr. LONDON CURRENT ACCOUNT Cr.

Date		£	s.	d.	Date		£	s.	d.
19— Dec. 31	To Brown—Share of London Profit	1,481	19	–	19— Jan. 1	By Balance	1,970	18	6
" 31	" Balance c/d	2,116	6	2	Dec. 31	" Brown—Share of Dundee Profit	1,627	6	8
		£3,598	5	2			£3,598	5	2
					19— Jan. 1	By Balance b/d	2,116	6	2

Dr. BIRMINGHAM CURRENT ACCOUNT Cr.

Date		£	s.	d.	Date		£	s.	d.
19— Dec. 31	To Jones—Share of Birmingham Profit	1,588	18	2	19— Jan. 1	By Balance	864	9	10
" 31	" Balance c/d	902	18	4	Dec. 31	" Jones—Share of Dundee Profit	1,627	6	8
		£2,491	16	6			£2,491	16	6
					19— Jan. 1	By Balance b/d	902	18	4

FOREIGN EXCHANGE

Before we proceed to treat of Foreign Branches, it is eminently advisable, if not absolutely necessary, to deal briefly with the subject of foreign exchange.

Foreign Exchange. This term is used to describe the means by which nations discharge or settle the mutual indebtedness that

arises out of their trading with one another. Since, however, foreign debts are usually paid by bills of exchange, the term is also used, in a narrow sense, to denote the principles governing the creation, negotiation, and payment of foreign bills of exchange.

Currency. This term signifies the circulating medium of a country by means of which trade is carried on. **Metallic Currency** denotes the gold, silver, and copper coins in current use. **Paper Currency** denotes the bank notes, bills of exchange, cheques, etc., that are used as substitutes for coin. Paper currency is, usually, convertible into gold either on demand or at some fixed time; in some countries, the legal tender currency consists partly of inconvertible paper money, which, generally, has greatly depreciated, that is, passes for much less than the value of the coin it represents.

Unit of Currency. Each country has, of course, its own currency and its own special terms for expressing monetary value. Each country has, also, some standard unit of currency for the purpose of financial calculations. In this country the unit is the £ sterling; *sterling* means standard English money. In France, the unit is the franc, in Germany the mark, in the United States the dollar, in Russia the chervonetz, in Italy the lira, in India the rupee, in Japan the yen, and so on.

Rate of Exchange. The rate of exchange is the rate at which the currency of one country can be converted into the currency of another. It consists of two terms, one fixed and the other fluctuating. Thus, in the exchange between London and Paris, the fixed term is the £1 sterling, and the fluctuating term is the varying number of francs and centimes given in exchange for the £1 sterling. In the exchange between London and India, the fixed term is the Indian rupee, and the fluctuating term is the varying amount of British pence given as an equivalent for the rupee. In quotations of " Rates of Exchange " only the fluctuating terms are, as a rule, stated, the fixed terms being understood.

Mint Par of Exchange. The standard gold coins of countries that have a gold standard are mixtures of pure gold and alloy; pure gold is too soft for coinage purposes, and alloy hardens it and makes it more serviceable. Now, if all these countries mixed the gold and the alloy in the same proportions, we should have a uniform gold coin. But they do not. British gold, for instance, is $\frac{11}{12}$ths fine that is, 11 parts pure gold to 1 part of alloy. Foreign gold, on the other hand, is mostly $\frac{9}{10}$ths fine, that is 9 parts pure gold to 1 part of alloy. Hence there is no uniform gold coin, because the standard gold coins of the various countries differ in weight and fineness. The coinage of each country, however, is governed by its coinage laws. In those countries, therefore, that have a gold standard, the relative values of their gold coins can be established

by calculating, from the coinage laws, the exact quantity of pure gold contained in each coin. By such means it is found that the British sovereign contains the same quantity of pure gold as the equivalent of 124·21 francs in French gold, 20·43 marks in German gold, 4·87 dollars in American gold, and so on. This exact equivalent is called the mint par of exchange. Where a country has only a silver standard, it is not possible to establish a mint par of exchange with a country that has a gold standard, owing to the fluctuating price of silver. The mint par of exchange, therefore, cannot change unless the coinage laws are altered.

Varying Rates of Exchange. If remittances were made in gold, the rate of exchange would be the mint par of exchange, plus or less the cost of transporting the gold. The cost of transport is added if a country quotes the rate in its own currency, and deducted if a country quotes the rate in the currency of a foreign country. Settlement of international indebtedness, however, is effected by means of bills of exchange, this being a more convenient and cheaper method. Where the total debts of two countries are not equal, there will be an ultimate balance, which can only be settled by the import or export of gold. The mint par or nominal rate of exchange is seldom the existing rate of exchange; when it is, it is a mere coincidence. The commercial or actual rate of exchange varies from day to day, being influenced by many causes, principally, however, by the law of supply and demand; it may rise higher or fall lower than the mint par. The rate of exchange is said to be *favourable to* or *against* us, according as it is higher or lower than the mint par. Low rates are favourable to the country in whose currency they are quoted, because the purchasers of bills have to give *less* than the mint par value of money for the foreign equivalent. High rates are against the country in whose currency they are quoted, because the purchasers of bills have to give *more* than the mint par value of money for the foreign equivalent. There are limits, however, to the rise and fall of the rate of exchange. These limits are determined, theoretically, by the "gold points," that is, the points at which it becomes cheaper to send specie, i.e. actual coin. The cost of packing, freight and insurance in the case of London and Paris is approximately 10 centimes per pound sterling. The gold points are therefore—

Mint Par.		*Cost of Transport*		*Gold Points*
124·21	−	10c.	=	124·11 London to Paris
124·21	+	10c.	=	124·31 Paris to London.

In the first case, £1 sterling will settle a debt of only 124·11 francs,

NOTE. The franc was given a gold content equivalent to 124·21 per sovereign by law, but the gold coinage to fulfil this law will not be minted until 1932.

the other 10 centimes being the cost of transport. A London merchant wishing to remit money to Paris will not, therefore, buy a bill on Paris unless he can get a higher rate than 124·11; for, at this figure, he can ship gold. In the second case, likewise, it costs 124·31 francs to settle a debt of £1. A Paris merchant wishing to remit to London will not, therefore, buy a bill unless he can obtain a lower rate than 124·31, because, at this figure, he can just as cheaply remit gold. Theoretically, then, the rates of exchange cannot vary beyond the limits of the gold points. In actual practice, however, the rates of exchange do at times, for special reasons, rise above and fall below the import and export specie points.

How Rates of Exchange are Quoted. There is, of course, a market for foreign bills just the same as for other commodities. In London the bill brokers and foreign bankers used to meet on Tuesdays and Thursdays at the Royal Exchange for the purpose of buying and selling foreign bills. In February, 1921, however, these meetings were discontinued, as business in bills had become more and more a matter of bargaining, and all the joint stock banks were conducting foreign exchange operations. The current rates of exchange can be seen on the financial page of almost every important daily paper.

There are two methods of quoting a foreign rate of exchange, namely—

(*a*) *Number of foreign units to the £.* Examples of countries quoted by this method are America, France and Germany.

(*b*) *Number of shillings and pence to the foreign unit.* Examples of countries quoted by this method are India and China.

Under (*a*) the pound remains *fixed* while the number of dollars, francs and marks varies; whilst under (*b*) the foreign unit remains *fixed* and the pound varies.

Conversion of Currency into Sterling. The calculation required will be either a division or multiplication sum, according to how the rate is quoted.

(*a*) *When the Rate of Exchange states the equivalent of the foreign currency to the English unit, i.e. the £ sterling.*

Rule. Divide the currency amount by the rate, after adding on noughts, if necessary, to clear any decimals in the divisor. The answer will be in pounds and decimals of a pound. Convert the latter, at sight, into shillings and pence (as previously explained in Chapter IX, page 288).

TABLE OF FOREIGN MONEYS

The following are the principal coins in use in the chief commercial countries. As the exchange value is not constant, the Mint

par value is given, or, in the case of silver standards, an appropriate value.

Country	Monetary Unit and its Sub-division	Mint Par Value
Argentine Republic	100 centavos = 1 peso	47·619d.
Austria	100 heller = 1 krone	34·585
Belgium	5 francs = 1 belga	35·00
Brazil	1,000 reis = 1 milreis	6d.
Canada	100 cents = 1 dollar	4·86
Chile	100 centavos = 1 peso	6d.
China (Hong-Kong)	100 cents = 1 dollar	(no parity determined)
„ (Shanghai)	1,000 cash = 1 tael	
Egypt	100 piastres = £1 Egypt	97·5
France	100 centimes = 1 franc	124·21
Germany	100 pfennige = 1 mark	20·43
Greece	100 lepta = 1 drachma	375·00
India	16 annas = 1 rupee	18d.
Italy	100 centesimi = 1 lira	92·46
Japan	100 sen = 1 yen	24·58d.
Netherlands	100 cents = 1 florin	12·107
Portugal	100 centavos = 1 escudo	53·25d.
Russia	Chervonetz = 10 roubles (1 rouble = 100 kopecs)	about 950 chervonetzi per £1,000
Scandinavia	100 öre = 1 kroner	18·159
Spain	100 centimos = 1 peseta	25·2215
Switzerland	100 centimes = 1 franc	25·2215
Turkey	100 piastres = £1 Turkish	110·71
United States	100 cents = 1 dollar	4·86665

NOTE. The 1,000 cash for a tael is approximate. The number of copper or iron coins per tael varies for each province.

The column of par value must be read with the caution that it gives the gold values. The silver values depend either on the $15\frac{1}{2}:1$ ratio or on the market price of silver. The Mint value of any silver coin when taken as a token is very different from its market value. This varies from day to day and depends upon the supply of coins and the price of silver. The market value is usually its approximate to its intrinsic value, but supply and demand may raise and depress the price.

In many of the countries mentioned above, the currency question is in a state of confusion, and although nominally on a gold basis the circulating medium is chiefly paper money.

Example 1. Find the value in sterling of \$10,351 at \$4·87 to the £.

$$\frac{10351}{4{\cdot}87} = \frac{1035100}{487} = £2{,}125{\cdot}462 = £2{,}125\ 9s.\ 3d.$$

Example 2. Convert into sterling 9,121 dollars 14 cents at 5·04 dollars to the £.

$$\frac{9121{\cdot}14}{5{\cdot}04} = \frac{912114}{504} = £1{,}809{\cdot}75 = £1{,}809\ 15s.\ 0d.$$

Example 3. Exchange into the sterling equivalent $8462·80 at $5 to the £.

8462·80 ÷ 5 = £1,692·560 = £1,692 11s. 3d.

(*b*) *When the Rate of Exchange states the amount of English pence equivalent to the foreign monetary unit.*

Rule. Multiply the currency amount by the rate and divide by 240. The answer will be in pounds and decimals of a pound. Convert the latter, at sight, into shillings and pence.

Example 1. Find the sterling value of 45,480 milreis at 15d. per milreis.

$$\frac{45480 \times 15}{240} = £2842{\cdot}50 = £2{,}842 \text{ 10s. 0d.}$$

Example 2. Find the sterling equivalent of 2,428 rupees 13 annas at 1s. 6d. per rupee.

			£	s.	d.
$\frac{2428 \times 18}{240}$ = £182·1		=	182	2	–
16 annas = 1 rupee	= 18d.				
1 anna	= 1⅛d.				
13 annas	= 14⅝d.	=		1	3 approx.
	Ans.	=	£182	3	3

Modern Methods of Calculating. Much time and labour may be saved by the student adopting modern methods of calculation, principally contracted division, decimalization at sight of shillings and pence, and conversion at sight of decimals into shillings and pence. The following example will show clearly the advantages to be derived by so doing.

Example 1. Find the value in sterling of 36,277·75 francs at 124·21 francs to the £.

Old Method

```
12421)3627775(£292
      24842
      114357
      111789
        25685
        24842
          843
           20
        16860(1s.
        12421
         4439
           12
        53268(4d.
        49684
         3584
```

Ans. = £292 1s. 4d

Modern Method

```
12421)3627775(£292·0678
      114357
       25685
         843
          98
          11
           1
```

Ans. = £292 1s. 4d.

Example 2. Find the value in francs and centimes of £1,434 17s. 11d. at 124·21 francs to the £.

Modern Method (Two ways)

(*a*)

143489·600	
1·2421	
143489·60	0
28697·92	0
5739·58	4
286·97	9
14·34	9
178228·43	2

Ans. = 178,228 francs 43 centimes.

(*b*)

143489·60	
124·21	
143489·	60
28697·	92
5739·	58
286·	98
14·	35
178228·	43

Construction of Tables for Converting Sterling into Currency. In the business office or counting house the student will, no doubt, find a specially compiled and printed book of tables by means of which the conversion of sterling into currency can be simply and rapidly effected. Small decimal tables of nine multiples are extremely useful, and can be very easily constructed by the student for his own use. All that is necessary is to start with some given rate for the £, and then find the decimal base for the shillings and pence respectively. For example, to construct a table for converting sterling into francs and centimes at the rate of 124·21 francs to the £. First, as £1 is the sterling equivalent of 124·21 francs, this amount will form the pounds basis; then £2 will equal 248·42 francs, and so on. Next, 124·21 francs ÷ 20 (£1 = 20s.) gives 6·2105 francs, which is the equivalent of 1s., and thus forms the shillings basis; then 2s. will equal 12·4210 francs, and so on. Again, 6·2105 francs ÷ 12 (1s. = 12d.) gives ·517541$\dot{6}$, which is the equivalent of 1d., and thus forms the pence basis; then 2d. will equal 1·03508$\dot{3}$ francs, and so on.

To multiply by 10, move the decimal point one place to the right; by 100, 2 places; by 1,000, 3 places; by 10,000, 4 places; and so on. To multiply by ·1, move the decimal point 1 place to the left; by ·01, 2 places; by ·001, 3 places; and so on.

TABLE—For Converting Sterling into *francs* and *centimes* at the Rate of 124·21 francs to the £.

No.	Pounds	Shillings	Pence
1	124·21 francs	6·2105 francs	·517541$\dot{6}$ francs
2	248·42 ,,	12·4210 ,,	1·03508$\dot{3}$,,
3	372·63 ,,	18·6315 ,,	1·552625 ,,
4	496·84 ,,	24·8420 ,,	2·0701$\dot{6}$,,
5	621·05 ,,	31·0525 ,,	2·587708$\dot{3}$,,
6	745·26 ,,	37·2630 ,,	3·10525 ,,
7	869·47 ,,	43·4735 ,,	3·622791$\dot{6}$,,
8	993·68 ,,	49·6840 ,,	4·140$\dot{3}$,,
9	1117·89 ,,	55·8945 ,,	4·657875 ,,

Example. Convert £110 8s. 11d. into francs and centimes at the rate of 124·21 francs to the £.

Calculation, Using Table

£	s.	d.		
100	–	–	=	12421·000 francs.
10	–	–	=	1242·100 ,,
	8	–	=	49·684 ,,
		10	=	5·175 ,,
		1	=	·517 ,,
£110	8	11	=	13718·476 ,,

Proof

```
12,4,2,1)1371847(110·446
         ------
          12974
          -----
           5537
           ----
            569
            ---
             73
             --
              1
```

£110·446 = £110 8s. 11d.

In constructing a similar table for marks and pfennige, we have—

$$£1 \text{ sterling} = 20{\cdot}43 \text{ marks} = \text{pounds basis;}$$

$$1s. = \frac{20{\cdot}43}{20} = 1{\cdot}0215 \text{ marks} = \text{shillings basis;}$$

$$1d. = \frac{1{\cdot}0215}{12} = {\cdot}085125 \text{ marks} = \text{pence basis;}$$

and hence the following figures—

TABLE

For Converting Sterling into *marks* and *pfennige* at the Rate of 20·43 marks to the £.

No.	Pounds	Shillings	Pence
1	20·43 marks	1·0215 marks	·085125 marks
2	40·86 ,,	2·0430 ,,	·170250 ,,
3	61·29 ,,	3·0645 ,,	·255375 ,,
4	81·72 ,,	4·0860 ,,	·340500 ,,
5	102·15 ,,	5·1075 ,,	·425625 ,,
6	122·58 ,,	6·1290 ,,	·510750 ,,
7	143·01 ,,	7·1505 ,,	·595875 ,,
8	163·44 ,,	8·1720 ,,	·681000 ,,
9	183·87 ,,	9·1935 ,,	·766125 ,,

Example. Convert £68 18s. 8d. into marks and pfennige at the rate of 20·43 marks to the £.

Calculation, Using Table

£	s.	d.			
60	–	–	=	1225·80 marks	
8	–	–	=	163·44 ,,	
	18	–	=	18·387 ,,	(twice 9)
		8	=	·681 ,,	
£68	18	8		1408·30	

Proof

```
2,0,4,3)140830(68·933
        ------
         18250
         -----
          1906
          ----
            67
            --
             6
```

Ans. = 1,408 marks 30 pfennige.

£68·933 = £68 18s. 8d.

In constructing a similar table for rupees, we have—

£1 sterling = 13·$\dot{3}$ rupees = pounds basis;
1s. = £$\frac{1}{20}$ = ·$\dot{6}$ rupees = shillings basis;
1d. = $\frac{1}{12}$s. = ·0$\dot{5}$ rupees = pence basis;

hence we have the following figures—

TABLE

For Converting Sterling into *Rupees* and *annas* at the Rate 18d. per rupee.

No.	Pounds	Shillings	Pence
1	13·$\dot{3}$ rupees	·6$\dot{6}$ rupees	·0$\dot{5}$ rupees
2	26·$\dot{6}$ „	1·3$\dot{3}$ „	·1$\dot{1}$ „
3	39·$\dot{9}$ „	1·9$\dot{9}$ „	·1$\dot{6}$ „
4	53·$\dot{3}$ „	2·6$\dot{6}$ „	·2$\dot{2}$ „
5	66·$\dot{6}$ „	3·3$\dot{3}$ „	·2$\dot{7}$ „
6	79·$\dot{9}$ „	3·9$\dot{9}$ „	·3$\dot{3}$ „
7	93·$\dot{3}$ „	4·6$\dot{6}$ „	·3$\dot{8}$ „
8	106·$\dot{6}$ „	5·3$\dot{3}$ „	·4$\dot{4}$ „
9	119·$\dot{9}$ „	5·9$\dot{9}$ „	·4$\dot{9}$ „

Example. Convert £489 17s. 11d. into rupees and annas at the rate of 18d. per rupee.

Calculation, Using the Table

£	*s.*	*d.*			
400	–	–	=	5333·3$\dot{3}$	rupees
80	–	–	=	1066·6$\dot{6}$	„
9	–	–	=	119·9$\dot{9}$	„
	10	–	=	6·6$\dot{6}$	„
	7	–	=	4·6$\dot{6}$	„
		10	=	·5$\dot{5}$	„
		1	=	·0$\dot{5}$	„
£489	17	11	=	6531·9$\dot{4}$	

Proof

$$\frac{6531{\cdot}9\dot{4} \times 18}{240} = £489{\cdot}893.$$

Ans. = £489 17s. 11d.

Construction of Tables for Converting Currency into Sterling. As previously mentioned, books of tables will, no doubt, be in use in the office or counting house. Small decimal tables of nine multiples can, however, be easily constructed by the student. In the case

of marks and francs the base will be obtained by deduction from the figures for the £ sterling. Thus—

20·43 marks = £1	124·21 francs = £1
1 mark = £ $\frac{1}{20{\cdot}43}$	1 franc = £ $\frac{1}{124{\cdot}21}$
= £0·04894762	= £·00805088

Hence the following figures—

TABLE

For Converting *marks and pfennige* into Sterling at the Rate of 20·43 marks to the £.

Marks	£
1	·04894762
2	·09789524
3	·14684286
4	·19579048
5	·24273810
6	·29368572
7	·34263334
8	·39158096
9	·44052858

TABLE

For Converting *francs* and *centimes* into Sterling at the Rate of 124·21 francs to the £.

Francs	£
1	·00805088
2	·01610176
3	·02415264
4	·03220352
5	·04025440
6	·04830528
7	·05635616
8	·06440704
9	·07245792

Example. Convert 1,408·30 marks into sterling at the rate of 20·43 marks to the £.

Conversion Made by Use of Table

1,000	marks	=	£48·9476
400	,,	=	19·5790
8	,,	=	·3915
·3	,,	=	·0146
1408·3	,,	=	68·933

£68·933 = £68 18s. 8d.

Proof

689·330	
2·043	
1378·66	0
27·57	3
2·06	8
1408·30	Marks.

Example 2. Convert 7,612 francs 63 centimes into sterling at the rate of 124·21 francs to the £.

Conversion Made by Use of Table

7000	francs	=	£56·356160
600	,,	=	4·830528
10	,,	=	·080508
2	,,	=	·016101
·6	,,	=	·004830
·03	,,	=	·000241
7612·63	,	=	£61·288368

Proof

61·	28	84
124·	21	00
6128·	84	
1225·	76	8
245·	15	36
12·	25	768
·	61	2884
7612·	63	2164

In constructing a table for milreis, the basis of the currency units and their equivalent in English pence is the starting point.

$$1 \text{ milreis} = 15\tfrac{1}{2}\text{d.} = \pounds\frac{15\frac{1}{2}}{240} = \pounds 0{\cdot}06458\dot{3}$$

Hence the following figures—

TABLE

For Converting *Milreis* into Sterling at the Rate of 1s. 3½d. per milreis.

Milreis	£
1	·06458$\dot{3}$
2	·12916$\dot{6}$
3	·19374$\dot{9}$
4	·25833$\dot{3}$
5	·32291$\dot{6}$
6	·387499
7	·45208$\dot{3}$
8	·51666$\dot{6}$
9	·581249

Example 1. Convert 6,734 milreis into sterling at the rate of 1s. 3½d. per milreis.

Calculation by Use of Table

6,000	milreis	=	£387·4999
700	,,	=	45·2083
30	,,	=	1·9374
4	,,	=	·2583
6,734	,,	=	£434·904

£434·904 = £434 18s. 1d.

Proof

£434 18s. 1d. = 104377d.

$$\frac{104377}{15\frac{1}{2}} = 6{,}734 \text{ milreis.}$$

NOTE. The milreis are not quoted at this rate for any country, but the table has been retained as valuable in indicating how to convert at any figure which may be quoted. The rates for milreis for Brazil and Rio de Janeiro have been quoted at 6d. and 5d. respectively; the rate for Brazil being practically established at 6d.

FORMS OF FOREIGN REMITTANCES

Bank Draft, Commercial Bills. In the rates of exchange, two prices are quoted, one for bank drafts, the other for commercial or ordinary trade bills. The former is slightly dearer than the

latter, as the banker has naturally a higher standing than an ordinary trader.

Telegraphic Transfer. This is a message sent by wire, ordering the transfer of a specified sum of money from one person to another by means of debit and credit of their respective accounts. Branch businesses and agents abroad often cable to headquarters for immediate funds. Headquarters then instruct their bankers to cable to the bank's representatives abroad to place a certain sum at the disposal of the branch or agency. This method of remittance is slightly dearer than buying a bill.

Council Bills. Money is transmitted from England to India by means of Council Bills. The Government of India is indebted every year to the Home Government on many accounts, e.g. troops serving in India, pensions to retired officers, etc. The revenue of the Indian Government is received in rupees and is stored in the treasuries at Bombay, Calcutta and Madras. Payment to England must be in sterling, and on the ascertainment of the silver available for the purpose, the Secretary of State for India advertises that he is prepared to receive tenders for so many lacs of rupees. The negotiation of this business is done through the Bank of England, and payment is by cheque. Council drafts are, however, falling into disuse.

Sterling Bills on London. Persons abroad who owe money to this country prefer to remit us sterling bills on London, rather than have us draw on them in their own currency. Thus, England draws few bills, but accepts very many. Bills drawn in sterling on London can be converted into gold if necessary, first by exchange into Bank of England notes, and then by demanding, at the bank, gold in exchange for the notes. The right to encash bills is rarely exercised. In the main, such bills are simply "credited" to account. London being thus a free market for gold, and being also the most important banking centre of the world, having a rate of exchange with every commercial country of any importance, sterling bills on London are readily negotiated abroad. These bills are not remitted by the drawers direct to London, but are purchased by other countries having payments to make to this country. We thus receive payment in our own money for goods sold to foreign countries.

TRANSACTIONS IN CURRENCY

It is now proposed to give two examples of the method of treating items in currency in the subsidiary books and Ledger. Generally speaking, the English merchant will invoice to his foreign customer in *sterling*, in order to ensure payment of the exact amount of the invoice, thus leaving the customer to deal with any profit or loss on exchange. But there are cases where the reverse procedure is necessary in order to facilitate trade.

Example 1. A. Smith, of London, sold goods to R. Brown, of Chicago, as follows—

12 cases Fancy Vases @ $8·35 per case.
12 „ „ Goods @ $11·46 „ „

The items were invoiced to Brown in currency and converted in Smith's books at the rate of $4·87. Brown remitted a draft, which was cashed at the rate of the day on which it was received, viz. $4·85. Show Smith's Day Book and Ledger with reference to the above.

In Smith's Books

FOREIGN SALES BOOK

Date	Particulars	Ledger Folio	Currency		Sterling		
	R. Brown, Chicago—		$	c.	£	s.	d.
	12 cases Fancy Vases @ $8·35		100	20			
	12 „ „ Goods @ $11·46		137	52			
			237	72	48	16	3

FOREIGN SALES LEDGER

Dr. R. BROWN, CHICAGO *Cr.*

		$	c.	£	s.	d.			$	c.	£	s.	d.
	To Goods . . .	237	72	48	16	3		By Draft . . .	237	72	49	–	3
	„ Difference in Exchange (profit)				4	–							
	$	237	72	£49	–	3		$	237	72	£49	–	3

Example 2. T. Tomlin, of London, bought goods as under—

(*a*) From Frère et Cie, Paris:

20 cases Goods @ fcs. 120·20
12 „ „ @ fcs. 115·10

(*b*) From Gebrüder Schmidt, Berlin:

20 cases Goods @ M. 16·87
12 „ „ @ M. 23·15

The first lot were converted at the rate of 121·21, and the second lot at 20·43. The goods were paid for by means of drafts purchased in the case of (*a*) at 121·25, and in the case of (*b*) at M. 20·38. Show the Purchase Book and Ledger Accounts for the above.

In Tomlin's Books

FOREIGN PURCHASES BOOK

Date	Particulars	Ledger Folio	Currency		Sterling		
			F.	c.	£	s.	d.
	Frère et Cie—						
	20 cases Goods @ francs 120·20		2404	00			
	12 „ „ @ francs 115·10		1381	20			
			3785	20	31	4	7
	Gebrüder Schmidt, Berlin—						
	20 cases Goods @ Marks 16·87		337	40			
	12 „ „ @ Marks 23·15		277	80			
			615	20	30	2	3

FOREIGN PURCHASES LEDGER

Dr. FRÈRE ET CIE, PARIS *Cr.*

Date	Particulars	F.	c.	£	s.	d.	Date	Particulars	F.	c.	£	s.	d.
	To Cash for Draft .	3785	20	31	4	4		By Goods . . .	3785	20	31	4	7
	„ Difference in Exchange (profit)					3							
	F.	3785	20	£31	4	7		F.	3785	20	£31	4	7

Dr. GEBRÜDER SCHMIDT, BERLIN *Cr.*

Date	Particulars	M.	p.	£	s.	d.	Date	Particulars	M.	p.	£	s.	d.
	To Cash for Draft .	615	20	30	3	9		By Goods . . .	615	20	20	2	3
								„ Difference in Exchange (loss) .				1	6
	M.	615	20	£30	3	9		M.	615	20	£30	3	9

FOREIGN BRANCHES

Special Features. As with home branches, so also with foreign branches, the book-keeping will vary according as the detail is recorded in the Head Office books or only in the Branch books. The general book-keeping will, therefore, be similar to that outlined in the preceding pages. The special features are the conversion of the accounts from currency into sterling, and the difficulties arising from the fluctuations in the rate of exchange.

Fixed and Fluctuating Rates of Exchange. Where the rate of exchange is fairly stable, slight fluctuations are not taken into consideration at all, and the accounts, with the exception of the Remittance Account, are converted into sterling at a fixed rate of exchange, usually the Mint par.

In other cases, where the rate of exchange is subject to violent

fluctuations, the conversion of the accounts into sterling at a uniform rate for each item would result in showing fictitious branch profits or losses. To obviate this, the accounts are converted at different rates, as under—

1. Remittances at the actual rate of the day when made or cashed.

2. Fixed Assets, also additions thereto, at the rate of the day when purchased. Additions, however, are sometimes converted at the average rate for the year or period, especially if made at various dates throughout the year. Fixed Liabilities (loans, mortgages, etc.) at the rate ruling on the day they were incurred.

3. Floating Assets and Liabilities at the current rate of exchange on the date of balancing the books.

4. Revenue Items, i.e. those affecting the Trading and Profit and Loss Account, at the average rate for the year or period. If the Branch Trial Balance discloses merely the Profit or Loss for the period, then there will be only this amount to convert at the average rate.

The fixed assets and liabilities will remain in the foreign books, and they should, therefore, appear from time to time at the same value. The floating assets and liabilities are converted at the current rate at the date of balancing, in order that the Balance Sheet may be an approximately correct representation of the state of affairs. The revenue items are converted at the average rate for the period, because they have been going on continuously throughout the year. The stocks at the commencement and close of the period, although they appear in the Trading Account, are converted, however, at the current rate on the dates of balancing. Thus, the stock at the commencement will appear in the current Trading Account at the same value as it appeared in the Balance Sheet of the previous period. In view of the permanent change in Exchange some companies have reduced their capital, and reduced their foreign fixed assets to present rates.

Procedure in the Head Office Books. Where the whole of the book-keeping is done by the Head Office, the Foreign Branch Ledger will be ruled with double columns, one for currency, and the other for sterling. Entries will be made from the periodical Branch Returns, the items being converted into sterling at once, if a fixed rate of exchange is employed, and at balancing time, if various rates are employed.

Where the branch forwards to the Head Office a copy of its Trial Balance in currency, the Head Office is obliged to convert the various items into sterling before it can bring them into account. This will be done either at one fixed rate or at various rates, as the case may be. The Remittance Account is, of course, already converted, the remittances having been cashed on the day they were

received from the branch, or purchased on the day they were forwarded to the branch. The value in sterling of the Head Office Account is also known, being the amount brought forward from the last balancing.

Difference in Exchange. If, after conversion into sterling, the two columns of the Branch Trial Balance do not agree (and it may be taken they never will) the totals must be made to correspond, by writing the balance on the lesser side, designating it "Difference in Exchange." A debit balance will signify a loss, and a credit balance will denote a profit; this amount will be debited or credited to the Branch Profit and Loss Account in the same away as other gains and losses. Where, however, the items are all converted at the same fixed rate, there will be no "Difference in Exchange" except for that appearing in the Remittance Account. In some cases, the profit or loss on exchange is not shown as a separate item, but is apportioned among the various items of expenditure, thus making the latter proportionately less in the case of a profit on exchange, and proportionately greater in the case of a loss.

Example 1. Convert the following Trial Balance into sterling—

BROOKLYN BRANCH TRIAL BALANCE

31ST DEC., 19..

	Dr. Dols.	Cts.	*Cr.* Dols.	Cts.
Fixtures and Fittings	2,606	40		
Bills Receivable	5,916	45		
Sundry Debtors	9,841	28		
Sundry Creditors			2,370	65
Stock, 1st Jan.	5,175	50		
Purchases	18,465	32		
Sales			33,750	25
Discounts Allowed	625	34		
Discounts Received			297	48
Sundry Expenses	1,383	80		
Wages and Salaries	3,412	75		
Rent, Rates, Taxes, and Insurance	725	56		
Bad Debts	439	29		
Depreciation	128	32		
Cash in Hand	455	25		
Cash at Bank	4,560	57		
Head Office A/c, 1st Jan.			32,067	45
Remittances to Head Office	14,750	–		
	68,485	83	68,485	83
Stock, 31st Dec., $5·255.				

Rate of Exchange at date of last balancing (31st Dec.)	4·87
,, ,, this 31st Dec. (current rate)	5·04
Average Rate for Year	4·96
Rate when Fixtures were purchased	4·88

In the Head Office books the Branch Account and the Remittances from branch appear as £6,372 11s. 5d. and £2,898 13s. 8d. respectively.

BROOKLYN BRANCH TRIAL BALANCE

31st Dec., 19.. *Dr.* *Cr.*

	Rate of Conversion	£	s.	d.	£	s.	d.
Fixtures and Fittings	4·88	534	2	–			
Bills Receivable	5·04	1,173	18	–			
Sundry Debtors	5·04	1,952	12	8			
Sundry Creditors	5·04				470	7	4
Stock, 1st Jan.	4·87	1,062	14	7			
Purchases	4·96	3,722	16	11			
Sales	4·96				6,804	9	9
Discounts Allowed	4·96	126	1	6			
Discounts Received	4·96				59	19	6
Sundry Expenses	4·96	278	19	10			
Wages and Salaries	4·96	688	1	2			
Rent, Rates, Taxes, and Insurance .	4·96	146	5	8			
Bad Debts	4·96	88	11	4			
Depreciation	4·96	25	17	5			
Cash in Hand	5·04	90	6	7			
Cash at Bank	5·04	904	17	6			
Head Office A/c, 1st Jan.					6,372	11	5
Remittances to Head Office . . .		2,898	13	8			
Difference in Exchange (loss) . . .		13	9	2			
	£	13,707	8	–	13,707	8	–
Stock, 31st Dec., at 5·04 = £1,042 13s.2d.							

The above figures can now be incorporated in the Head Office books by means of Journal entries similar to those in Example 6, the net profit being £1,754 4s. 10d.

Where the foreign branch, instead of forwarding a duplicate of its Trial Balance, sends over merely an audited copy of its Trading and Profit and Loss Account and Balance Sheet, then only the net profit will require to be incorporated in the Head Office books. This is done by means of the following Journal entry—

HEAD OFFICE JOURNAL *Dr.* *Cr.*

		£	s.	d.	£	s.	d.
19..							
Dec. 31	Branch Current A/c . .	1,754	4	10			
	To Profit and Loss A/c .				1,754	4	10
	Transfer of profit on Brooklyn Branch.						

In the case of a loss, however, the entry would be the reverse of the above.

Depreciation. Some accountants consider it incorrect to convert depreciation at the average rate for the year, even though it is a Revenue item, and prefer to convert fixed assets, and the depreciation of them, at the same rate. It should be noted that, in the case of foreign branches, depreciation is often dealt with exclusively by the Head Office, and on the *sterling* figures. In such cases, the Head Office would make an adjusting entry in its Journal, thus—

Depreciation	*Dr.*
To Branch Current Account .	*Cr.*

sending a credit note for the amount to the branch, which would pass the item through the Branch books by means of a Journal entry similar to the following—

Head Office Current Account .	*Dr.*
To Fixtures and Fittings . .	*Cr.*
for depreciation on same.	

Example 2. From the following Trial Balances prepare Balance Sheet of the Brazil Trading Syndicate, Ltd., as at 31st Dec., 19..

RIO DE JANEIRO TRIAL BALANCE

31st Dec., 19..	*Dr.*	*Cr.*
	Milreis	Milreis
London Office A/c (£9,812 10s. 5d.)		154,206
Furniture and Fixtures	4,174	
Sundry Debtors	89,462	
Sundry Creditors		15,950
Stock-in-trade, 31st Dec.	88,920	
Cash at Bank	10,340	
Profit and Loss A/c (net profit for year)		22,740
	192,896	192,896

LONDON TRIAL BALANCE

31st Dec., 19..	*Dr.* £	s.	d.	*Cr.* £	s.	d.
Rio de Janeiro Office A/c (Remittances thereto at actual rates)	9,812	10	5			
Share Capital A/c (20,000 shares of £1 each, 10s. per share paid up)				10,000	–	–
Cash at Bank	457	16	8			
Profit and Loss A/c (balance 1st Jan.)				270	7	–
	£10,270	7	1	£10,270	7	1

Rate at date of last balancing (31st Dec.)	. .	16d. per milreis
Rate this 31st Dec. (current rate) .	. . . .	$15\frac{1}{2}$d. ,,
Average rate for year .	. . . . .	15d. ,,
Rate of day when Fixtures were purchased	. .	$15\frac{3}{4}$d. ,,

NOTE. The above rates are not based on a "parity"; a recent quotation in this currency being at $5\frac{55}{64}$d.

RIO DE JANEIRO TRIAL BALANCE

(After Conversion) *Dr.* *Cr.*

	Rate	£	s.	d.	£	s.	d.
London Office A/c . .	—				9,812	10	5
Furniture and Fixtures . .	$15\frac{3}{4}$	273	18	4			
Sundry Debtors . . .	$15\frac{1}{2}$	5,777	15	1			
Sundry Creditors . . .	$15\frac{1}{2}$				1,030	2	1
Stock-in-Trade . . .	$15\frac{1}{2}$	5,742	15	–			
Cash at Bank . . .	$15\frac{1}{2}$	667	15	10			
Profit and Loss A/c (net profit for Year)	15				1,421	5	–
Difference in Exchange (profit)					198	6	9
		£12,462	4	3	£12,462	4	3

BALANCE SHEET

AS AT 31ST DEC., 19..

Capital and Liabilities	£	s.	d.	*Property and Assets*	£	s.	d.
Share Capital—				Furniture and Fixtures . . .	273	18	4
20,000 Shares of £1 each, 10s. per share paid up . . .	10,000	–	–	Stock-in-Trade	5,742	15	–
Sundry Creditors	1,030	2	1	Sundry Debtors	5,777	15	1
Profit and Loss Account—				Cash at Bank	1,125	12	6
Balance, 1st Jan. £270 7 1							
Add Net Profit for year . 1,619 11 9	1,889	18	10				
£	12,920	–	11	£	12,920	–	11

Mine, Plantation, Etc. In the case of a foreign mine or plantation (tea, cocoa, rubber, tobacco, etc.), making monthly returns of its cash expenditure on capital and revenue account, the Head Office books would be ruled with double columns, one for currency and one for sterling; and both sets of figures would be recorded. At balancing time, the conversion would take place—according to the special circumstances mentioned previously—either at a fixed rate or at varying rates. A Remittance Account is employed; but, in many cases, the remittances are from the Head Office to the branch, instead of, as in other cases, from the branch to the Head

Office. The reason is that the Head Office has to finance the mine or plantation. The output or crop of the latter is forwarded to Europe for sale by auction, and the proceeds are remitted direct to the Head Office; the branch does not handle any of the money.

Example. The Ceylon Tea Plantation Co., Ltd., remits to its foreign manager exchange for £9,800 in rupees at 1s. $3\frac{5}{16}$d. At the end of the month the manager makes the following Return of his cash expenditure—

	Rs.
Plantation Wages (planting)	15,000
" " (manufacturing)	5,000
Salaries	2,000
Hospital Expenses	500
Machinery and Plant	20,000
Buildings, etc.	50,000
Rates and Taxes	500
General Expenses	600
Tools and Implements	20,000
Coolie Brokerage and Passage Money	10,000
	Rs. 123,600

You are required to show the records in the foreign books, and also in the Head Office books.

In Foreign Books

Dr. CASH BOOK *Cr.*

19..		Rupees.[1]	Cts.[1]	19..		Rupees.	Cts.
Jan.	To London Office	153,600	–	Jan.	By Planting Wages	15,000	–
					" Manufg. Wages	5,000	–
					" Salaries	2,000	–
					" Hospital Expenses	500	–
					" Machinery and Plant	20,000	–
					" Buildings	50,000	–
					" Rates and Taxes	500	–
					" General Expenses	600	–
					" Tools and Implements	20,000	–
					" Coolie Brokerage and Passage Money	10,000	–

[1] Indian Currency, but rupee divided into 100 cents.

LEDGER

Dr. LONDON OFFICE *Cr.*

				19..		Rupees.	Cts.
				Jan.	By Cash	153,600	–

In Head Office Books

CEYLON JOURNAL *Dr.* *Cr.*

		Rupees	Cts.	Rupees	Cts.
19..					
Jan. 31	Planting Wages	15,000	–		
	Manufacturing Wages	5,000	–		
	Salaries	2,000	–		
	Hospital Expenses	500	–		
	Machinery and Plant	20,000	–		
	Buildings	50,000	–		
	Rates and Taxes	500	–		
	General Expenses	600	–		
	Tools and Implements	20,000	–		
	Coolie Brokerage and Passage Money	10,000	–		
	To Plantation Cash A/c			123,600	–
	for sundry disbursements during the month.				

FLUCTUATING PAPER CURRENCY

Depreciated Paper Currency. Hitherto, only metallic currencies have been dealt with whose exchange fluctuations could be dealt with satisfactorily by taking the average rate for the year or trading period. It is now proposed to consider the case of countries where the legal tender is a greatly depreciated paper currency, whose sterling equivalent is subject to violent changes, e.g. the paper peso (dollar) of Chili and Peru. So long as a paper currency is readily convertible into gold, it retains its face value. When it is inconvertible, it will retain its value only so long as its issue is strictly limited to actual business requirements. But the moment an inconvertible paper currency becomes over-issued, the trading community cannot absorb it, and forthwith a heavy depreciation sets in.

How British Book-keeping is Affected. The connection of British book-keeping with such matters arises from the fact that many British companies are formed and registered in London, which have often only their head office in London, the business or works being situated in one of these South American republics. The company's capital is raised in sterling, and the results of the company's operations have naturally to be presented to the shareholders in sterling. Thus, to such companies, the question of fluctuating exchange and its proper treatment in the accounts is an all-important one.

Rates of Exchange and Procedure in the Books. The aim of the book-keeping procedure of the London Office is to record the result of the foreign transactions in their approximate sterling equivalent. It is not possible to ascertain the exact £ s. d. value, for there is no fixed ratio of gold to silver. The exchange value of silver coins depends on the market price of silver, which is itself affected by the law of supply and demand. Owing to the incessant and violent fluctuations in the rate of exchange, the average rate for the year

CEYLON LEDGER

Date	Manufacturing Wages		Planting Wages		Hospital Expenses		Machinery and Plant		Buildings		Rates and Taxes		General Expenses		Coolie Brokerage and Passage Money		Tools and Implements		Salaries		Total Currency		Total Sterling		
	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	£	s.	d.
19— Jan. 31	5,000	–	15,000	–	500	–	20,000	–	50,000	–	500	–	600	–	10,000	–	20,000	–	2,000	–	123600	–	8,240	–	–[1]

[1] At the assumed rate of 1s. 4d. per rupee.

The above form is used when all the items are converted periodically at the same rate, either a fixed rate or the average for the period, and when there is expenditure only.

The following form, however, is used when the items are converted at different rates. There would be a separate Ledger Account for each item of expenditure.

Dr. **PLANTING WAGES ACCOUNT** *Cr.*

		R.	c.	£	s.	d.			R.	c.	£	s.	d.
19— Jan. 31	To Cash	15,000	–										

Dr. **CEYLON PLANTATION CASH ACCOUNT** *Cr.*

		R.	c.	£	s.	d.			R.	c.	£	s.	d.
19— Jan. 31	To Remittance	153,600	–	9,800	–	–	19— Jan. 31	By Sundry Expenses as per Return	123,600	–			

will not give satisfactory results. When the business is transacted or the work executed, the value of the dollar may be 9d.; when payment is received, it may be 10½d.; when the bank balance admits of a remittance (possibly containing the profit on such business or work) being made to the London Office, the rate may have risen to 12d. or have dropped to 8d., the value of the paper peso (i.e. dollar) varying from day to day and even from hour to hour. The only satisfactory way of dealing with such variations is to take the average rate of exchange for short periods, say, each month. This will suffice for all revenue transactions, and also for capital expenditure in the form of wages on capital account expended continuously throughout the month. Stores require special treatment, which will be explained later. Capital expenditure in the shape of fixed assets will, of course, be converted at the rate ruling on the date the assets were purchased, so that they may appear in the books at their approximate sterling cost. In the Branch books, all capital expenditure is transferred at balancing time to the London Office Account. The Branch Balance Sheet thus shows only the floating assets and liabilities, which are valued at the current rate of exchange on the date of such Balance Sheet. The difference between the floating assets and liabilities is represented by the balance of the London Office Account, which is converted into sterling at the same rate. Remittances are made to the Head Office usually by means of sterling bills on London. In the foreign books, the London Office Account will contain a memorandum *sterling* column; and, in the head office books, the Branch Office Account will be provided with a memorandum *currency* column. At balancing time, any difference between the *Dr.* and *Cr.* sides of the memorandum columns is written off as profit or loss on exchange.

Example 1. The British Engineering Company, Ltd., has a branch works in Chili. The following is the Balance Sheet of the Branch as at 31st Dec., and a summary of its transactions for the ensuing three months. The items are converted into sterling in the Head Office books at the average rate of exchange for each month. Any capital expenditure is transferred quarterly to the London Office Account. You are required to write up and balance the foreign books, and also to show the records in the London books.

BRANCH BALANCE SHEET, 31st Dec.

Liabilities	$	*Assets*	$
Sundry Creditors . .	8,000	Bank Balance . . .	15,000
London Office . .	42,000	Sundry Debtors . .	35,000
	50,000		50,000

Rate of Exchange, 31st Dec., $ = 10d.

SUMMARY OF TRANSACTIONS

	January.	February.	March
Gross Revenue earned	$35,000	$45,000	$55,000
Trade Expenses accrued	12,000	17,000	21,000
Wages paid on Revenue A/c . . .	8,000	9,000	10,000
Expenditure incurred on Capital A/c .	5,000	6,000	4,000
	@ 9d.	@ 10½d.	@ 10d.
Cash received from Debtors	30,000	45,000	58,000
Cash paid to Creditors	15,000	20,000	28,000
Average Rate of Exchange	9d.	10½d.	10d.

Remittances to Head Office (sterling bills on London):—
Jan. 28th, $12,000 @ 10d.; Feb. 27th, $15,000 @ 10½d.; March 29th, $20,000 @ 11d.
Rate of Exchange, 31st March, $ = 10½d.

In Foreign Books

JOURNAL

		Dr.	Cr.
		$	$
Jan. 31	Sundry Debtors	35,000	
	To Work Done A/c . . .		35,000
	for gross revenue earned.		
31	Trade Expenses	12,000	
	To Sundry Creditors . . .		12,000
	for expenses accrued.		
31	Capital Expenditure	5,000	
	To Sundry Creditors . . .		5,000
	for expenditure incurred = £187 10s. @ 9d. per $.		
Feb. 28	Sundry Debtors	45,000	
	To Work Done A/c		45,000
	for gross revenue earned.		
28	Trade Expenses	17,000	
	To Sundry Creditors . . .		17,000
	for expenses accrued.		
28	Capital Expenditure	6,000	
	To Sundry Creditors . . .		6,000
	for expenditure incurred = £262 10s. @ 10½d. per $.		
Mar. 31	Sundry Debtors	55,000	
	To Work Done A/c		55,000
	for gross income earned.		
31	Trade Expenses	21,000	
	To Sundry Creditors . . .		21,000
	for expenses accrued.		
31	Capital Expenditure	4,000	
	To Sundry Creditors . . .		4,000
	for expenditure incurred = £166 13s. 4d. @ 10d. per $.		

CASH BOOK

Dr.		$		Cr.	$
19—			19—		
Dec. 31	To Balance	15,000	Jan. 31	By Wages	8,000
Jan 31	" Sundry Drs.	30,000	" 31	" Sundry Crs.	15,000
			" 31	" London Office (£500 @ 10d.)	12,000
			" 31	" Balance c/d	10,000
		$45,000			$45,000
		$			$
Jan. 31	To Balance b/d	10,000	Feb. 28	By Wages	9,000
Feb. 28	" Sundry Drs.	45,000	" 28	" Sundry Crs.	20,000
			" 28	" London Office (£656 5s. @ 10½d.)	15,000
			" 28	" Balance c/d	11,000
		$55,000			$55,000
		$			$
Feb. 28	To Balance b/d	11,000	Mar. 31	By Wages	10,000
Mar. 31	" Sundry Drs.	58,000	" 31	" Sundry Crs.	28,000
			" 31	" London Office (£916 13s. 4d. @ 11d.)	20,000
			" 31	" Balance c/d	11,000
		$69,000			$69,000
Mar. 31	To Balance b/d	11,000			

LEDGER

SUNDRY CREDITORS

Dr.		$		Cr.	$
19—			19—		
Jan. 31	To Cash	15,000	Dec. 31	By Balance	8,000
Feb. 28	" "	20,000	Jan. 31	" Trade Expenses	12,000
Mar. 31	" "	28,000	" 31	" Capital Expenditure	5,000
" 31	" Balance c/d	10,000	Feb. 28	" Trade Expenses	17,000
			" 28	" Capital Expenditure	6,000
			Mar. 31	" Trade Expenses	21,000
			" 31	" Capital Expenditure	4,000
		$73,000			$73,000
			Mar. 31	By Balance b/d	10,000

SUNDRY DEBTORS

Dr.		$		Cr.	$
19—			19—		
Dec. 31	To Balance	35,000	Jan. 31	By Cash	30,000
19—			Feb. 28	" "	45,000
Jan. 31	" Work done	35,000	Mar. 31	" "	58,000
Feb. 28	" "	45,000	" 31	" Balance c/d	37,000
Mar. 31	" "	55,000			
		$170,000			$170,000
Mar. 31	To Balance b/d	37,000			

WAGES

Dr.		$		Cr.	$
19—			19—		
Jan. 31	To Cash	8,000	Jan. 31	By Revenue A/c	8,000
Feb. 28	To Cash	9,000	Feb. 28	By Revenue A/c	9,000
Mar. 31	To Cash	10,000	Mar. 31	By Revenue A/c	10,000

Dr. **CAPITAL EXPENDITURE** Cr.

19—		Rate	£	s.	d.	$	19—		Rate	£	s.	d.	$
Jan. 31	To Sundry Crs. . .	9d.	187	10	–	5,000	Mar. 31	By Transfer to London Office A/c . .		616	13	4	15,000
Feb. 28	„ do. . .	10½d.	262	10	–	6,000							
Mar. 31	„ do. . .	10d.	166	13	4	4,000							
			£616	13	4	$15,000				£616	13	4	$15,000

Dr. **LONDON OFFICE** Cr.

19—		Rate	£	s.	d.	$	19—		Rate	£	s.	d.	$
Jan. 28	To Cash . . .	10d.	500	–	–	12,000	Dec. 31	By Balance . .	10d.	1,750	–	–	42,000
Feb. 27	„ do. . . .	10½d.	656	5	–	15,000	19—						
Mar. 29	„ do. . . .	11d.	916	13	4	20,000	Jan. 31	„ Revenue A/c (profit)	9d.	562	10	–	15,000
„ 31	„ Capital Expenditure transferred .		616	13	4	15,000	Feb. 28	„ do. do.	10½d.	831	5	–	19,000
							Mar. 31	„ do. do.	10d.	1,000	–	–	24,000
„ 31	„ Balance c/d . .	10½d.	16,62	10	–	38,000	„ 31	„ Profit on Exchange		208	6	8	
			£4,352	1	8	$100,000				£4,352	1	8	$100,000
							Mar. 31	By Balance b/d . .	10½d.	1,662	10	–	38,000

Dr. TRADE EXPENSES *Cr.*

19—		$	19—		$
Jan. 31	To Sundry Crs.	12,000	Jan. 31	By Revenue A/c	12,000
Feb. 28	To Sundry Crs.	17,000	Feb. 28	By Revenue A/c	17,000
Mar. 31	To Sundry Crs.	21,000	Mar. 31	By Revenue A/c	21,000

Dr. WORK DONE *Cr.*

19—		$	19—		$
Jan. 31	To Revenue A/c	35,000	Jan. 31	By Sundry Drs.	35,000
Feb. 28	To Revenue A/c	45,000	Feb. 28	By Sundry Drs.	45,000
Mar. 31	To Revenue A/c	55,000	Mar. 31	By Sundry Drs.	55,000

TRIAL BALANCES

	January		February		March	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
	$	$	$	$	$	$
Sundry Debtors	40,000		40,000		37,000	
„ Creditors		10,000		13,000		10,000
Capital Expenditure .	5,000		11,000			
London Office .		45,000		49,000		38,000
Cash at Bank .	10,000		11,000		11,000	
	$55,000	$55,000	$62,000	$62,000	$48,000	$48,000

Dr. REVENUE ACCOUNT *Cr.*

19—		$	19—		$
Jan. 31	To Wages	8,000	Jan. 31	By Work Done	35,000
„ 31	„ Trade Expenses	12,000			
„ 31	„ Balance (net profit transferred to London Office A/c £562 10s. @ 9d.)	15,000			
		$35,000			$35,000
Feb. 28	To Wages	9,000	Feb. 28	By Work Done	45,000
„ 28	„ Trade Expenses	17,000			
„ 28	„ Balance (net profit transferred to London Office A/c=£831 5s. @ 10½d.)	19,000			
		$45,000			$45,000
Mar. 31	To Wages	10,000	Mar. 31	By Work Done	55,000
„ 31	„ Trade Expenses	21,000			
„ 31	„ Balance (net profit transferred to London Office A/c = £1,000 @ 10d.)	24,000			
		$55,000			$55,000

BALANCE SHEET, 31st March, 19..

Liabilities	$	*Assets*	$
Sundry Creditors	10,000	Cash at Bank	11,000
London Office (= £1,662 10s. @ 10½d.)	38,000	Sundry Debtors	37,000
	$48,000		$48,00

In London Books

JOURNAL

	Dr. £	s.	d.	Cr. £	s.	d.
Remittances in Transit	2,072	18	4			
To Chili Branch A/c				2,072	18	4
for the following Remittances— Jan. 28th, $12,000 @ 10d. =£500 Feb. 27th, $15,000 @ 10½d.=£656 5s. Mar. 29th, $20,000 @ 11d.=£916 13s. 4d.						
Capital Expenditure	616	13	4			
To Chili Branch A/c				616	13	4
for expenditure as follows— Jan., $5,000 @ 9d. = £187 10s. . . Feb., $6,000 @ 10½d. = £262 10s. Mar., $4,000 @ 10d. = £166 13s. 4d.						
Chili Branch A/c	2,393	15	–			
To Profit and Loss A/c . . .				2,393	15	–
for Branch profits as follows— Jan., $15,000 @ 9d. = £562 10s. Feb., $19,000 @ 10½d.= £831 5s. Mar., $24,000 @ 10d. = £1,000.						
Chili Branch A/c	208	6	8			
To Profit and Loss A/c . . .				208	6	8
profit on exchange transferred.						

LEDGER

Dr. REMITTANCES IN TRANSIT Cr.

	£	s.	d.		£	s.	d.
To Chili Branch A/c . .	2,072	18	4				

Dr. CAPITAL EXPENDITURE Cr.

	£	s.	d.		£	s.	d.
To Chili Branch A/c . .	616	13	4				

Dr. CHILI BRANCH ACCOUNT *Cr.*

	$	Rate	£	s.	d.		$	Rate	£	s.	d.
To Balance	42,000	10d.	1,750	–	–	By Remittances in Transit—					
„ Profit and Loss A/c (net						Jan.	12,000	10d.	500	–	–
profits)—						Feb.	15,000	10½d.	656	5	–
Jan.	15,000	9d.	562	10	–	Mar.	20,000	11d.	916	13	4
Feb.	19,000	10½d.	831	5	–	„ Capital Expenditure—					
Mar.	24,000	10d.	1,000	–	–	Jan.	5,000	9d.	187	10	–
„ Profit and Loss A/c (differ-						Feb.	6,000	10½d.	262	10	–
ence in exchange) . .			208	6	8	Mar.	4,000	10d.	166	13	4
						„ Balance c/d . . .	38,000	10½d.	1,662	10	–
$	100,000		£4,352	1	8	$	100,000		£4,352	1	8
To Balance b/d . . .	38,000	10½d.	1,662	10	–						

Dr. PROFIT AND LOSS ACCOUNT Cr.

	£	s.	d.		£	s.	d.
				By Chili Branch (net profit) .	2,393	15	–
				„ Chili Branch (difference in exchange) . . .	208	6	8
				£	2,602	1	8

Stores Accounts. It is necessary that Stores Accounts should be kept on a fixed basis. The disadvantage of Stores Accounts being kept in a fluctuating currency is that the method produces very inaccurate results, the same Stores being charged out sometimes above cost, and sometimes below cost. This can best be shown by means of an illustration.

Suppose Stores are bought from the London Office for £342 in January, on a day when the rate of exchange is 9½d. (= $8,640), and that these Stores are used, one-third in February on revenue account, one-third in March on capital account, and one-third in April on revenue account. Assuming the transactions to be dealt with in the local paper currency, and that the average rates of exchange for the months are : Feb. 9d., March 10½d., and April 12d. respectively, we should have the following entries —

JOURNAL

19—		Dr. $	Cr. $
Feb.	Stores Consumed A/c	2,880	
	To Stores A/c		2,880
Mar.	Capital Expenditure	2,880	
	To Stores A/c		2,880
Apr.	Stores Consumed A/c	2,880	
	To Stores A/c		2,880

The Stores Consumed Account is transferred to the Revenue Account, the balance of which is carried to the London Office Account and converted into sterling at the average rate for the month; this is equivalent to the whole of the Revenue Account items being converted into sterling at the same rate and then balanced. The Capital Expenditure is transferred ultimately to the London Office Account, and is converted into sterling at the average rate for the month.

We then arrive at the following results —

			£
The Stores Consumed in Feb. are converted	($2,880 @ 9d.)	into	108
„ Capital Expenditure in March is „	($2,880 @ 10½d.)	„	126
„ Stores Consumed in April are „	($2,880 @ 12d.)	„	144
Total			£378

Thus, stores that cost £342 have been charged out to various accounts at £378. Furthermore, one-third of £342 = £114, so that in not one case are the amounts charged even approximately at accurate amounts. Obviously, therefore, this is an improper and unsatisfactory method of treatment.

To obviate such inaccuracies the Stores Account is kept on a fixed currency basis, and not in the fluctuating paper currency. By the side of the currency column in the Stores Account, a standard figure column is kept, and all receipts and issues of stores are made in standard figures. At the same time, these figures are converted at the average rate for the month into currency figures, in order that the currency books may be posted and balanced. By this means, stores are charged out at the same value as received. The standard figure column is only a *memorandum* column, and forms no part of the double entry. It does not matter what standard is adopted, whether sterling or dollars, but the latter is usually preferred, as a decimal system is more convenient for calculation. Working, then, the previous example with a standard dollar figure, say 18d. to the dollar, the following account is raised in the Ledger, and also that given on next page.

Dr. STORES CONSUMED ACCOUNT *Cr.*

		$			
Feb.	To Stores A/c . . .	3,040.00			
Apr.	" Stores A/c . . .	2,280.00			

Owing to the standard dollars having been converted at varying rates into currency dollars, there will be a difference (although the stores are all used) between the two sides of the currency column. This is adjusted at balancing time by a contra transfer to the currency column of the London Office Account. The balance of the latter is not really affected by such a transfer, because, in the Head Office books, the currency column is only a memorandum column. The London Office Account would appear as under—

Dr. LONDON OFFICE ACCOUNT *Cr.*

		Rate	£	*s.*	*d.*	$	19..		Rate	£	*s.*	*d.*	$
	To Stores A/c (adjustment)					714.29	Jan.	By Stores A/c .	9½d.	342	–	–	8,640.00

By the foregoing method the following results are obtained—

The Stores Consumed in Feb. are converted	($3,040 @ 9d.)	into	£114
" Capital Expenditure in March is "	($2,605.71 @ 10½d.)	"	114
" Stores Consumed in April are "	($2,280 @ 12d.)	"	114
	Total		£342

STORES ACCOUNT

Dr. | *Cr.*

		Rate	18d. $	$			Rate	18d. $	$
19—					19—				
Jan.	To London Office . .	9½d.	4,560.00	8,640.00	Feb.	By Stores Consumed .	9d.	1,520.00	3,040.00
					Mar.	„ Capital Expenditure .	10½d.	1,520.00	2,605.71
					Apr.	„ Stores Consumed .	12d.	1,520.00	2,280.00
						„ London Office, Adjustment . . .			714.29
		$	4,560.00	8,640.00			$	4,560.00	8,640.00

CAPITAL EXPENDITURE ACCOUNT

Dr. | *Cr.*

		Rate	£	s.	d.	$			Rate	£	s.	d.	$
19—													
Mar.	To Stores A/c . .	10½d.	114	—	—	2,605.71							

Thus, stores which cost £342 are charged out to various accounts at £342, and not only so, but equal quantities are charged out at equal prices. The results are entirely satisfactory, and show the method adopted to be one eminently suited to the special circumstances.

Balancing the Stores Account. At balancing time the first balance to be written in and brought down in the Stores Account will be the balance shown by the *standard figure* columns. This amount will be converted at the current rate into currency figures, and will give the balance to write in and bring down in the currency columns. After this operation any difference between the *Dr.* and *Cr.* totals of the currency columns is adjusted by a contra transfer to the currency column in the London Office Account. As previously explained, such an entry does not affect the balance of this account. Reference to the worked example which follows will make this paragraph quite clear to the student.

Example 2. From the following Balance Sheet and summary of transactions, write up the foreign books and balance them. The Revenue items are converted into sterling at the average rate of exchange for each month. The Stores Account is kept in both currency and standard (18d.) dollar.

BRANCH BALANCE SHEET. 31st Dec., 19..

Liabilities	$	*Assets*	$
Sundry Creditors	20,000	Bank Balance	12,000
London Office	132,000	Sundry Debtors	50,000
		Stores on hand (50,000 std. 18d. $)	90,000
	$152,000		$152,000

Rate of Exchange, 31st Dec., $ = 10d.

SUMMARY OF TRANSACTIONS FOR JANUARY

Stores received from London @ 9d.	£1,500
Stores bought locally	$4,000
Stores used on Revenue Account (standard dollars)	7,500
,, ,, Capital Account (standard dollars)	5,000
Gross Revenue earned	55,000
Wages paid on Revenue A/c	10,000
,, ,, Capital A/c	4,000
Trade Expenses accrued	10,000
Cash received from Debtors	50,000
Cash paid to Creditors	15,000

Remitted to Head Office (Sterling bills on London), 29th Jan., $20,000 @ 11d.

Average Rate of Exchange for month = 9d. Rate on 31st Jan., $ = 10½d.

In Foreign Books

JOURNAL

		Dr.	Cr.
19—		$	$
Jan. 31	Stores A/c	40,000	
	To London Office A/c		40,000
	for Sales purchased from London, £1,500 @ 9d. = $40,000 = 20,000 Std. 18d. $.		
„ 31	Stores A/c	4,000	
	To Sundry Creditors		4,000
	for Stores purchased locally. $4,000 @ 9d. = $2,000 @ 18d.		
„ 31	Stores Consumed A/c	15,000	
	To Stores A/c		15,000
	for Stores used on Revenue A/c. $7,500 @ 18d. = 15,000 $ at 9d.		
„ 31	Capital Expenditure	10,000	
	To Stores A/c		10,000
	for Stores used on Capital A/c. $5,000 @ 18d. = $10,000 @ 9d. = £375.		
„ 31	Sundry Debtors	55,000	
	To Work Done A/c		55,000
	for gross revenue earned.		
„ 31	Trade Expenses	10,000	
	To Sundry Creditors		10,000
	for expenses accrued.		

CASH BOOK

Dr. Cr.

19—		$	19—		$
Dec. 31	To Balance . . .	12,000	Jan. 31	By Wages . . .	10,000
19—			„ 31	„ Capital Expenditure (@ 9d. = £150)	4,000
Jan. 31	„ Sundry Debtors .	50,000	„ 31	„ Sundry Creditors	15,000
			„ 31	„ London Office (@ 11d. = £916 13s. 4d.)	20,000
			„ 31	„ Balance c/d . .	13,000
		$62,000			$62,000
Jan. 31	To Balance b/d .	13,000			

LEDGER

SUNDRY DEBTORS

Dr. Cr.

19—		$	19—		$
Dec. 31	To Balance . . .	50,000	Jan. 31	By Cash	50,000
19—			„ 31	„ Balance c/d . .	55,000
Jan. 31	„ Work Done . .	55,000			
		$105,000			$105,000
Jan. 31	To Balance b/d .	55,000			

Dr. SUNDRY CREDITORS *Cr.*

19—		$	19—		$
Jan. 31	To Cash	15,000	Dec. 31	By Balance	20,000
" 31	" Balance c/d	19,000	19—		
			Jan. 31	" Stores A/c	4,000
			" 31	" Trade Expenses	10,000
		$34,000			$34,000
			Jan. 31	By Balance b/d	19,000

Dr. STORES CONSUMED *Cr.*

19—		$	19—		$
Jan. 31	To Stores A/c	15,000	Jan. 31	By Revenue A/c	15,000

Dr. WORK DONE *Cr.*

19—		$	19—		$
Jan. 31	To Revenue A/c	55,000	Jan. 31	By Sundry Drs.	55,000

Dr. TRADE EXPENSES *Cr.*

19—		$	19—		$
Jan. 31	To Sundry Crs.	10,000	Jan. 31	By Revenue A/c	10,000

Dr. WAGES *Cr.*

19—		$	19—		$
Jan. 31	To Cash	10,000	Jan. 31	By Revenue A/c	10,000

Dr. REVENUE ACCOUNT *Cr.*

19—		$	19—		$
Jan. 31	To Stores Consumed	15,000	Jan. 31	By Work Done	55,000
" 31	" Wages	10,000			
" 31	" Trade Expenses	10,000			
" 31	" Balance (net profit to London Office A/c @ 9d. = £750)	20,000			
		$55,000			$55,000

BALANCE SHEET—31st Jan., 19—

Liabilities	$	*Assets*	$
Sundry Creditors	19,000	Cash at Bank	13,000
London Office A/c (= £6,606 5s. @ 10½d.)	151,000	Sundry Debtors	55,000
		Stores on hand (= 59,500 std. 18d. $)	102,000
	$170,000		$170,000

Gold Books and Paper Books. It will be noticed from the previous examples that some transactions take place in gold, e.g. Stores

Dr. **STORES ACCOUNT** Cr.

19—		Rate	Std. $	$	19—		Rate	Std. $	$
Dec. 31	To Balance	10d.	50,000	90,000	Jan. 31	By Stores Consumed	9d.	7,500	15,000
19—					" 31	" Capital Expenditure	9d.	5,000	10,000
Jan. 31	" London Office	9d.	20,000	40,000	" 31	" Balance c/d	10½d.	59,500	102,000
" 31	" Sundry Crs.	9d.	2,000	4,000	" 31	" London Office A/c (adjustment)			7,000
			$72,000	$134,000				$72,000	$134,000
Jan. 31	To Balance b/d	10½d.	59,500	102,000					

Dr. CAPITAL EXPENDITURE Cr.

19—		Rate	£	s.	d.	$	19—		Rate	£	s.	d.	$
Jan. 31	To Stores A/c	9d.	375	–	–	10,000	Jan. 31	By Transfer to London Office Account		525	–	–	14,000
" 31	" Wages	9d.	150	–	–	4,000							
			£525	–	–	$14,000				£525	–	–	$14,000

Dr. LONDON OFFICE ACCOUNT Cr.

19—		Rate	£	s.	d.	$	19—		Rate	£	s.	d.	$
Jan. 29	To Cash	11d.	916	13	4	20,000	Dec. 31	By Balance	10d.	5,500	–	–	132,000
" 31	" Capital Expenditure		525	–	–	14,000	19—						
" 31	" Stores A/c (adjustment)					7,000	Jan. 31	" Stores A/c	9d.	1,500	–	–	40,000
" 31	" Balance c/d	10½d.	6,606	5	–	151,000	" 31	" Revenue A/c (net profit)	9d.	750	–	–	20,000
							" 31	" Profit on Exchange		297	18	4	
			£8,047	18	4	$192,000				£8,047	18	4	$192,000
							Jan. 31	By Balance b/d	10½d.	6,606	5	–	151,000

bought from the London Office, while others take place in currency, e.g. the local receipts and expenditure. The book-keeping system adopted so far has been to make the double entry of the whole of the transactions only in the local currency, but, by means of memorandum columns, to record the standard equivalent of all items having a gold or standard value, or which have periodically to be converted into gold or standard value. An alternative method that obtains is now to be considered. This is to keep two sets of books abroad, one to record the gold or standard accounts, and the other to record the paper or fluctuating currency accounts. Thus, the Gold Books will contain the Stores Account, the Capital Expenditure Account, and the London Office Account; the Paper Books will contain the Bank Account, the Debtors' and Creditors' Accounts, and the various Receipts and Expenditure Accounts.

"Conversions" or "Permutations" Accounts. The connection between the two sets of books is established and maintained by means of "Conversions" or "Permutations" Accounts. These are accounts to which are posted all entries in each set of books that affect accounts in the other set of books, i.e. entries in the Paper Books which affect accounts in the Gold Books, and entries in the Gold Books which affect accounts in the Paper Books. For example, in the Paper Books there is not a Stores Account; when, therefore, it is desired to post an item that affects the Stores Account in the Paper Books, the item must be posted to the Conversions Account instead. Again, in the Gold Books there is not a Sundry Creditors Account; when, therefore, it is desired to post an item that affects the Sundry Creditors Account in the Gold Books, post it to the Conversions Account instead. All items, therefore, that affect accounts in both books will require an entry in each set of books. Thus, suppose stores are bought locally from Sundry Creditors. If we had only one set of books, the Journal entry would be—

Stores Account	*Dr.*
To Sundry Creditors . .	*Cr.*

But when we have two sets of books, two entries will be necessary. In the Paper Books, the Journal entry will be—

Conversions Account . . .	*Dr.*
To Sundry Creditors . .	*Cr.*

the Conversions Account being debited in place of the Stores Account, which is in the other set of books. In the Gold Books, the Journal entry will be—

Stores Account	*Dr.*
To Conversions Account . .	*Cr.*

the Conversions Account being credited in place of the Sundry Creditors Account, which is in the other set of books. Many entries, of course, will not go through the Conversions Account at all; for instance, the Journal entry

Stores	*Dr.*
To London Office . . .	*Cr.*

will affect only the accounts in the Gold Books; again, the Journal entry

Sundry Debtors	*Dr.*
To Work Done Account . .	*Cr.*

will affect only the accounts in the Paper Books. All transfers from one set of books to the other must, however, be made through the medium of the Conversions Accounts. Some accountants, it should be noted, prefer to have only one Conversions Account, and to keep it in the Gold Books, the account being provided with double columns on each side, one for standard figures and the other for currency figures. The keeping of two Conversions Accounts, one in each set of books is, however, much simpler and clearer.

Balancing the Conversions Accounts. At balancing time, the Conversions Account in the Paper Books is balanced, and the balance brought down for the new period just as in an ordinary Ledger account. In the Gold Books, however, the Conversions Account is balanced in a special manner. First of all, the balance of the Conversions Account in the Paper Books is converted at the current rate into standard figures. These figures are written in, and brought down as the balance of the Conversions Account in the Gold Books. After this operation, any difference between the *Dr.* and *Cr.* totals of the Conversions Account is written off as profit or loss on exchange, a contra entry being made in the London Office Account. Reference to the worked example which follows will clearly illustrate this method of procedure.

Example 3. Re-work the previous example (No. 2), using two sets of books, Gold Books kept in standard (18d.) dollars, and Paper Books kept in currency dollars.

BALANCE SHEET. 31st Dec., 19..

Liabilities	$	*Assets*	$
Sundry Creditors . .	20,000	Bank Balance . .	12,000
London Office A/c . .	132,000	Sundry Debtors . .	50,000
		Stores A/c . . .	90,000
	$152,000		$152,000

Rate of Exchange, 31st Dec., $ = 10d.

In Paper Books

JOURNAL

		Dr.	*Cr.*
19—		$	$
Dec. 31	Bank	12,000	
	Sundry Debtors	50,000	
	To Sundry Creditors		20,000
	„ Conversions A/c		42,000
	for balances as at this date.		
19—			
Jan. 31	Conversions A/c	4,000	
	To Sundry Creditors		4,000
	for Stores purchased locally.		
„ 31	Stores Consumed A/c	15,000	
	To Conversions A/c		15,000
	for Stores used on Revenue A/c. $7,500 std. @ 18d. = $15,000 @ 9d.		
„ 31	Sundry Debtors	55,000	
	To Work Done A/c		55,000
	for gross revenue earned.		
„ 31	Trade Expenses	10,000	
	To Sundry Creditors		10,000
	for expenses accrued.		

CASH BOOK

Dr. *Cr.*

19—		$	19—		$
Dec. 31	To Balance	12,000	Jan. 31	By Wages	10,000
19—			„ 31	„ Conversions A/c (Capital Expenditure)	4,000
Jan. 31	„ Sundry Debtors	50,000	„ 31	„ Sundry Creditors	15,000
			„ 31	„ Conversions A/c (London Office Remittance)	20,000
			„ 31	„ Balance c/d	13,000
		$62,000			$62,000
Jan. 31	To Balance b/d	13,000			

LEDGER

SUNDRY DEBTORS

Dr. *Cr.*

19—		$	19—		$
Dec. 31	To Balance	50,000	Jan. 31	By Cash	50,000
19—				„ Balance c/d	55,000
Jan. 31	„ Work Done	55,000			
		$105,000			$105,000
Jan. 31	To Balance b/d	55,000			

Dr. SUNDRY CREDITORS Cr.

		$			$
19—			19—		
Jan. 31	To Cash	15,000	Dec. 31	By Balance . . .	20,000
" 31	" Balance c/d . .	19,000	19—		
			Jan. 31	" Stores A/c . . .	4,000
			" 31	" Trade Expenses .	10,000
		$34,000			$34,000
			Jan. 31	By Balance b/d . .	19,000

Dr. STORES CONSUMED Cr.

		$			$
19—			19—		
Jan. 31	To Stores A/c . .	15,000	Jan. 31	By Revenue A/c . .	15,000

Dr. WORK DONE Cr.

		$			$
19—			19—		
Jan. 31	To Revenue A/c . .	55,000	Jan. 31	By Sundry Debtors . .	55,000

Dr. TRADE EXPENSES Cr.

		$			$
19—			19—		
Jan. 31	To Sundry Creditors .	10,000	Jan. 31	By Revenue A/c . .	10,000

Dr. WAGES Cr.

		$			$
19—			19—		
Jan. 31	To Cash	10,000	Jan. 31	By Revenue A/c . .	10,000

Dr. CONVERSIONS ACCOUNT Cr.

		$			$
19—			19—		
Jan. 31	To Sundry Crs. . .	4,000	Dec. 31	By Balance . . .	42,000
" 31	" Capital Expenditure .	4,000	19—		
" 31	" London Office A/c (Remittance) . .	20,000	Jan. 31	" Stores Consumed .	15,000
" 31	" Balance c/d . .	40,000	" 31	" Revenue A/c (net profit transferred to London Office A/c) .	20,000
		$77,000			$ 77,000
			Jan. 31	By Balance b/d . .	49,000

Dr. REVENUE ACCOUNT Cr.

		$			$
19—			19—		
Jan. 31	To Stores Consumed	15,000	Jan. 31	By Work Done . .	55,000
" 31	" Wages . . .	10,000			
" 31	" Trade Expenses . .	10,000			
" 31	" Conversions A/c (net profit transferred to London Office A/c) .	20,000			
		$55,000			$55,000

FINAL BALANCES.—31ST JAN.

	Dr.	Cr.
	$	$
Bank Balance	13,000	
Sundry Debtors	55,000	
Sundry Creditors		19,000
Conversions A/c		49,000
	$68,000	$68,000

In Gold Books

JOURNAL

		Dr.	Cr.
		Std. $	Std. $
19— Dec. 31	Stores A/c . . . . Conversions A/c . . . . . . To London Office A/c (say) . . for balances as at this date.	50,000 23,333	 73,333
19— Jan. 31	Stores A/c . . . . To London Office A/c . . . for Stores purchased from London. £1,500 = $20,000 @ 18d.	20,000	 20,000
31	Stores A/c . . . . To Conversions A/c . . . . . for Stores purchased from Creditors. $4,000 @ 9d. = $2,000 @ 18d.	2,000	 2,000
31	Conversions A/c . . . . . . To Stores A/c . . . . . . for Stores used on Revenue A/c.	7,500	 7,500
31	Capital Expenditure . . . . . To Stores A/c . . . . . . for Stores used on Capital A/c.	5,000	 5,000
31	Capital Expenditure . . . . . To Conversions A/c . . . . . for Wages paid on Capital A/c. $4,000 @ 9d. = $2,000 @ 18d.	2,000	 2,000
31	London Office A/c . . . . . To Conversions A/c . . . . . for Remittance to London. $20,000 @ 11d. = $12,222 (say) @ 18d.	12,222	 12,222
31	Conversions A/c . . . . . . To London Office A/c . . . . for net profit. $20,000 @ 9d. = $10,000 @ 18d.	10,000	 10,000

LEDGER

STORES ACCOUNT

Dr.					*Cr.*
19—		Std. $	19—		Std. $
Dec. 31	To Balance	50,000	Jan. 31	By Conversions A/c	7,500
19—			" 31	" Capital Expenditure	5,000
Jan. 31	" London Office A/c	20,000	" 31	" Balance c/d	59,500
" 31	" Conversions A/c (Sundry Crs.)	2,000			
		$72,000			$72,000
Jan. 31	To Balance b/d	59,500			

CAPITAL EXPENDITURE

Dr.					*Cr.*
19—		Std. $	19—		Std. $
Jan. 31	To Stores A/c	5,000	Jan. 31	By Transfer to London Office A/c	7,000
" 31	" Conversions A/c (Wages)	2,000			
		$7,000			$7,000

LONDON OFFICE ACCOUNT

Dr.					*Cr.*
19—		Std. $	19—		Std. $
Jan. 31	To Conversions A/c (Remittance)	12,222	Dec. 31	By Balance	73,333
" 31	" Transfer from Capital Expenditure A/c	7,000	19— Jan. 31	" Stores A/c	20,000
" 31	" Balance c/d	88,083	" 31	" Conversions A/c (net profit)	10,000
			" 31	" Profit on Exchange	3,972
		$107,305			$107,305
			Jan. 31	By Balance b/d	88,083

CONVERSIONS ACCOUNT

Dr.					*Cr.*
19—		Std. $	19—		Std. $
Dec. 31	To Balance	23,333	Jan. 31	By Stores A/c	2,000
19—			" 31	" Capital Expenditure	2,000
Jan. 31	" Stores A/c	7,500	" 31	" London Office A/c (Remittance)	12,222
" 31	" London Office A/c (net profit)	10,000	" 31	" Balance (as per Paper Books, $49,000 @ 10½d.) c/d	28,583
" 31	" Profit on Exchange	3,972			
		$44,805			$44,805
Jan. 31	To Balance b/d	28,583			

FINAL BALANCES—31st Jan.

	Dr.	*Cr.*
	Std. $	Std. $
Stores A/c	59,500	
London Office		88,083
Conversions A/c	28,583	
	$88,083	$88,083

QUESTIONS ON CHAPTER XIX

A

1. How are Branch Accounts divided? What subdivisions are there?
2. What entries are made when a Branch is opened and goods transferred thereto from stock? Is it correct to treat such a transfer as a sale?
3. Submit rulings of a "Branch Supplies Book," and explain its use.
4. In what three ways are goods invoiced to branches?
5. What object is sought by invoicing goods to branches at selling price? Explain the term "multiple shop system."
6. Explain the method of dealing with Branch receipts and payments.
7. Explain the term "Branch Returns." What do they comprise in the case of a branch doing (1) only a cash business, (2) both cash and credit business?
8. How may the invoice price be reduced to cost when a known percentage has been added? Give examples.
9. Explain the object of double money columns in the Ledger records of Branch Accounts.
10. Explain and illustrate the use of a Branch Adjustment Account.

B

1. What methods are there of dealing with the record of *credit* sales in the case of Branches?
2. How is depreciation dealt with in Branch Accounts?
3. How are variations in the selling price (according to quantity taken) dealt with in Branch Accounts where the goods have been invoiced to the Branch at selling price?
4. Explain and illustrate the use of "Monthly Stock Accounts."
5. Explain the method of keeping the accounts in the case of *wholesale* branches.
6. How is the buying usually done in wholesale branches? How are goods sold usually invoiced?
7. What difference is there in the book-keeping where branches keep their own books?
8. Explain the nature and *modus operandi* of the "Head Office Account."
9. Explain and illustrate the use of a "Remittance Account."
10. Explain and illustrate the method of dealing with goods and remittances *in transit*.

C

1. What is meant by "inter-branch" transactions? How are they dealt with? Do the "inter-branch" balances affect the final Balance Sheet?
2. Define the term "foreign exchange."
3. Explain the meaning of the following: currency, metallic currency, paper currency, unit of currency, sterling.
4. What is meant by "rate of exchange"?
5. Explain briefly what is meant by "mint par of exchange" and how it is ascertained.
6. How do you account for varying rates of exchange? What is meant by rates being *favourable to* or *against* a country?
7. Give a brief account of the "gold points" and their effect on the rates of exchange.
8. In what two ways are rates of exchange quoted? Give examples.
9. Make out a concise list of the principal moneys of foreign countries, and give their approximate value in English money.

10. How is currency converted into sterling? Give examples. Find the value in sterling of 47,884·75 francs @ 124·21, and prove your answer by re-converting it into currency, modern methods of working to be adopted in each case.

D.

1. Explain the method of constructing Tables (of nine multiples) for converting sterling into currency. Give examples.
2. Explain the method of constructing Tables (of nine multiples) for converting currency into sterling. Give examples.
3. Using the Tables given in the preceding pages, exchange the following—
(*a*) £225 14s. 7d. into francs and centimes @ 124·21 francs to the £.
(*b*) £317 8s. 10d. into marks and pfennige @ 20·43 marks to the £.
(*c*) £484 19s. 2d. into rupees and annas @ 18d. per rupee.
(*d*) £609 10s. 5d. into rupees and annas @ 18d. per rupee.
Prove your answer by re-converting it into sterling, adopting modern methods of working.
4. Using the Tables given in the preceding pages, exchange the following—
(*a*) 2,708 marks 58 pfennige into sterling @ 20·43 marks to the £.
(*b*) 8,079 francs 46 centimes into sterling @ 124·21 francs to the £.
(*c*) 26,918 rupees 9 annas into sterling @ 18d. per rupee.
(*d*) 18,579 milreis into sterling @ 15½d. per milreis.
5. What are the special features of "foreign" branches?
6. What rate of exchange is adopted for conversion of foreign branch accounts into sterling?
7. In the case of a foreign country with a very fluctuating rate of exchange, what different rates are used in the conversion of accounts, and why?
8. Explain the method of procedure in the Head Office Books as regards the record of the Branch transactions.
9. What is meant by the term "Difference in Exchange"? How does it arise? In what two different ways is it dealt with in the accounts?
10. How is depreciation of fixed assets dealt with in the case of foreign branches?

E.

1. Explain the method of keeping the accounts in the case of a Head Office, say in London, owning a foreign mine or plantation. Submit specimens of any special rulings of books that might be necessary.
2. Name and explain some of the principal forms of foreign remittances.
3. How are transactions in currency dealt with in books of account kept in sterling? Give examples.
4. Explain the method of converting accounts kept in a fluctuating paper currency into sterling.
5. How is Capital Expenditure at the Branch dealt with (*a*) in the foreign books, (*b*) in the London Office books?
6. How are remittances from the Branch to the Head Office dealt with (*a*) in the foreign books, (*b*) in the London books?
7. How should Stores Accounts be kept in a country where there is a violently fluctuating paper currency? What are the disadvantages of keeping such Stores Accounts in the local currency?
8. "Stores Accounts should be kept on a gold basis." Outline briefly this method of procedure. What are its advantages?
9. How is the Stores Account balanced when it has been kept in both standard and currency figures? Give an example.
10. What are "Conversions" or "Permutations" Accounts? Explain briefly the method of working and balancing them (*a*) in the Paper Books (*b*) in the Gold Books.

EXERCISE XIX

1. On 1st March, a branch establishment was opened and £950 worth of goods was transferred thereto from stock. Show the Ledger accounts recording this transaction.

2. From the following particulars prepare the Branch Account as it would appear in the Head Office books. The Branch sales are exclusively cash, and the goods sent to the Branch have been invoiced at cost price —

	£	s.	d.
Goods from Head Office	5,508	15	4
Returns to Head Office	42	10	9
Rates, Taxes, and Insurance paid	65	11	9
Wages paid	362	5	8
Cash remitted to Head Office	6,871	16	8
Stock, 1st Jan.	816	10	2
Rent paid	140	10	6
Stock, 31st Dec.	795	15	4
Sundry Expenses paid	81	4	3

3. From the particulars furnished hereunder, write up the Branch Account in the Head Office books. The Branch Sales are exclusively cash, and the goods sent to the Branch have been invoiced at 33⅓ per cent on cost —

	£	s.	d.
Goods sent to Branch *less* Returns	6,841	19	4
Wages and Salaries paid	372	6	9
Cash remitted by Branch	6,855	–	8
Stock, 1st Jan.	920	16	8
Rates, Taxes, and Insurance paid	80	10	4
Rent paid	145	15	6
Stock, 31st Dec.	895	15	4
Sundry Expenses paid	39	14	11

Show, in connection with the above exercise, (*a*) the advantage of double money columns, (*b*) how the books are reconciled when the Branch Account is written up from the above figures exactly as they stand.

4. From the particulars given below, draw up the Branch Account or Accounts in the Head Office books. The goods sent to the Branch have been invoiced at cost, and the Branch makes both cash and credit sales —

	£	s.	d.
Goods received from Head Office	2,517	16	8
Returns to Head Office	42	–	–
Stock, 1st Jan.	625	13	4
Ready Money Sales	1,608	11	5
Six months' Credit Sales to 30th June	2,976	14	2
Allowances to Customers	13	8	11
Discounts Allowed to Customers	132	5	6
Bad Debts	218	6	3
Rent, Rates, and Taxes	108	12	7
Returns from Customers	28	11	4
Wages and Salaries	294	6	8
Debtors, 1st Jan.	1,475	9	10
Stock, 30th June	595	15	6
Sundry Expenses	63	12	5
Cash received on Ledger Accounts	2,516	14	2
Debtors, 30th June	1,542	17	10

5. From the undermentioned particulars construct the Branch Accounts as they would appear in the Head Office books. The Branches are charged with the goods at selling price, the sales being exclusively cash. The rate of gross profit is 25 per cent on selling price.

	Branch A			Branch B		
	£	s.	d.	£	s.	d.
Goods from Head Office	9,846	12	4	10,408	15	8
Returns to Head Office	28	9	4	46	11	8
Sales by Branch	9,662	2	–	10,183	8	8
Stock, 1st Jan.	1,338	3	4	1,672	12	4
Stock, 31st Dec.	1,476	12	4	1,814	12	8
Allowances off Selling Price	29	16	8	26	10	4
Sundry Expenses	80	12	4	139	16	5
Salaries and Wages	248	15	6	318	13	2
Depreciation of Furniture and Fixtures	24	13	9	35	17	1
Rent, Rates, and Taxes	250	16	8	296	14	8
Excess in Stock at close	12	4	8	—		
Shortage in Stock at close	—			10	4	8

6. The Stock on 1st March was £3,027 16s. 11d. The Sales for the month of March amounted to £1,543 10s. 9d., and the Returns Outwards were £28 9s. 1d. The Purchases for the month of March were £892 19s. 6d., while the Returns Inwards amounted to £37 15s. 4d. The rate of gross profit is 20 per cent on Sales. Show by means of an account how to arrive at the approximate value of the Stock at the end of March.

7. From the undermentioned particulars relating to a Head Office and its two wholesale Branches, prepare final accounts and Balance Sheet as they would appear in the Head Office books —

	Head Office			Liverpool Branch			Reading Branch		
	£	s.	d.	£	s.	d.	£	s.	d.
Stock, 1st Jan.	—			4,807	13	9	3,946	15	7
Debtors	—			16,915	11	7	13,482	9	10
Creditors	8,216	15	9	—			—		
Discounts Earned	—			513	15	8	398	16	2
Bad Debts	—			607	14	9	550	18	6
Bills Payable	2,514	11	2	—			—		
Purchases *less* Returns	—			11,918	14	4	9,867	13	9
Furniture, Fixtures, and Fittings	157	13	2	365	16	2	225	15	8
Horses, Harness, Vehicles, etc.	—			1,956	13	8	1,698	12	11
Salaries	987	16	2	—			—		
Cash at Bank	8,916	9	3	—			—		
Share Capital (22,000 Shares of £1 each, fully paid)	22,000	–	–	—			—		
Travellers' Salaries and Expenses	—			1,814	5	10	1,328	13	7
Directors' Fees	450	10	6	—			—		
Sales *less* Returns	—			26,156	18	3	21,546	15	10
Wages	—			2,386	18	4	1,846	15	9
Interim Dividend 10%	2,200	–	–	—			—		
Stock, 31st Dec.	—			5,016	14	8	4,028	11	5
Debenture Interest	600	–	–	—			—		
Reserve Fund Account	—			7,500	–	–	—		
Discounts Allowed	—			1,605	10	2	1,572	14	8
6% Debentures	10,000	–	–	—			—		
Carriage Inwards	—			509	12	8	457	11	6
Depreciation	17	10	4	40	12	11	25	1	9
Sundry Expenses	—			3,017	14	11	2,856	11	5
Rent, Rates, and Taxes	287	14	6	382	10	6	298	10	6
Horse and Stable Expenses	—			327	3	7	246	9	10
Cash in hand	39	16	7	72	19	5	55	14	6

Reserve for Bad Debts, 5% Debtors.

8. From the following condensed Trial Balance prepare amalgamated Balance Sheet as at 31st Dec.

HEAD OFFICE TRIAL BALANCE
31st Dec., 19— *Dr.* *Cr.*

	£	s.	d.	£	s.	d.
Sundry Assets	12,317	4	2			
Sundry Creditors				3,017	15	6
Capital Account				12,000	–	–
Branch Current A/c (£250 of this is for Goods sent on 31st Dec.) .	3,960	11	4			
Remittances from Branch . .				1,260	–	–
	£16,277	15	6	£16,277	15	6

BRANCH TRIAL BALANCE
31st Dec., 19— *Dr.* *Cr.*

	£	s.	d.	£	s.	d.
Sundry Assets	2,847	10	9			
Sundry Creditors				456	19	5
Head Office Current A/c . .				3,710	11	4
Remittances to Head Office (£60 of this represents a Remittance made on 31st Dec.)	1,320	–	–			
	£4,167	10	9	£4,167	10	9

9. From the following Trial Balance of the Branch books, prepare the necessary Journal entries to incorporate the figures in the Head Office books, and show the final accounts in the Branch ledger and also in the Head Office ledger.

BRANCH TRIAL BALANCE
31st Dec., 19— *Dr.* *Cr.*

	£	s.	d.	£	s.	d.
Horses and Carts	256	14	2			
Furniture and Fixtures	75	18	9			
Sundry Debtors	847	13	5			
Sundry Creditors				154	12	6
Stock, 1st Jan.	675	11	2			
Purchases from Head Office . .	2,916	16	7			
Sales				4,462	16	8
Discounts Earned				10	14	11
Rent, Rates, and Taxes. . . .	92	15	3			
Sundry Expenses	65	11	7			
Depreciation	30	14	5			
Head Office Account, ...				3,516	16	6
Cash in hand	187	5	10			
Carriage Inwards	84	7	9			
Wages and Salaries	428	13	11			
Bad Debts	35	18	5			
Remittances to Head Office . .	2,360	–	–			
Discounts Allowed	86	19	4			
Stock, 31st Dec., £710 15s. 8d.	£8,145	–	7	£8,145	–	7

10. Three partners, F. Finch, G. Green, and R. Roberts, have Branch businesses working independently in London, Edinburgh, and Dublin. F. Finch manages the London business and receives two-thirds of the profits therefrom, the balance being shared equally between Green and Roberts. Green manages the Edinburgh business, receiving half of the profits therefrom, the balance being shared equally between Finch and Roberts. Roberts manages the Dublin business, receiving one-third of the profits therefrom, the balance being shared equally between Finch and Green. The branches buy from, and sell to, one another at a small inter-branch profit.

From the following Trial Balances draw up a Tabular Trading and Profit and Loss Account, and a Balance Sheet in (*a*) columnar form, (*b*) ordinary form. Credit each partner with interest on Capital at 5 per cent per annum, and depreciate Plant and Machinery at the rate of 10 per cent per annum. Show also the partners' Capital Accounts, and the Branch Current Accounts in the respective Branch ledgers.

LONDON TRIAL BALANCE

31st Dec., 19— *Dr.* *Cr.*

	£	s.	d.	£	s.	d.
Plant and Machinery	5,616	11	5			
Cash in hand	216	18	7			
Cash at Bank	7,808	10	6			
Current Accounts—						
Edinburgh	2,386	14	5			
Dublin	2,017	18	9			
Stock, 1st Jan.	6,174	10	7			
Sundry Debtors	12,206	13	4			
Sundry Creditors				8,165	19	10
Purchases	37,856	19	5			
„ from Branches	3,047	8	10			
Sales				54,719	11	8
„ to Branches				4,028	16	8
Capital Account, F. Finch				20,646	15	7
Drawing Account, F. Finch	3,000	–	–			
Trade Expenses	197	14	11			
Wages	3,814	3	9			
Discounts Allowed	627	16	8			
Discounts Earned				497	13	10
Printing and Stationery	256	17	5			
Advertising	297	12	3			
Carriage Inwards	564	13	8			
„ Outwards	925	14	9			
Salaries	732	19	11			
Bad Debts	308	18	5			
	£88,058	17	7	£88,058	17	7
Stock, 31st Dec., £6,285 11s. 3d.						

EDINBURGH TRIAL BALANCE

31st Dec., 19—

	Dr. £	s.	d.	Cr. £	s.	d.
Plant and Machinery	4,406	11	10			
Cash in hand	115	9	7			
Cash at Bank	5,219	12	6			
Current Accounts—London				2,386	14	5
Dublin	1,027	12	8			
Stock, 1st Jan.	4,629	15	4			
Sundry Debtors	9,847	13	6			
Sundry Creditors				5,028	17	11
Purchases	29,085	17	2			
„ from Branches	2,875	14	9			
Sales				40,207	13	6
„ to Branches				3,318	15	9
Capital Account, G. Green				14,172	10	5
Drawing Account, G. Green	2,500	–	–			
Trade Expenses	134	13	7			
Wages	2,675	11	5			
Discounts Allowed	457	9	8			
Discounts Earned				384	13	6
Printing and Stationery	229	16	5			
Advertising	236	18	9			
Carriage Inwards	425	9	10			
Carriage Outwards	814	4	11			
Salaries	596	18	4			
Bad Debts	219	15	3			
	£65,499	5	6	£65,499	5	6

Stock, 31st Dec., £4,752 18s. 6d.

DUBLIN TRIAL BALANCE

31st Dec., 19—

	Dr. £	s.	d.	Cr. £	s.	d.
Plant and Machinery	3,417	15	2			
Cash in hand	89	11	8			
Cash at Bank	4,723	16	7			
Current Accounts—London				2,017	18	9
Edinburgh				1,027	12	8
Stock, 1st Jan.	3,852	19	4			
Sundry Debtors	8,806	14	5			
Sundry Creditors				3,351	3	5
Purchases	24,678	10	2			
„ from Branches	2,359	11	6			
Sales				34,447	16	9
„ to Branches				3,028	5	10
Capital Account, R. Roberts				10,276	14	3
Drawing Account, R. Roberts	2,000	–	–			
Trade Expenses	86	18	4			
Wages	2,075	16	3			
Discounts Allowed	357	9	10			
Discounts Earned				307	10	6
Printing and Stationery	126	17	5			
Advertising	195	6	4			
Carriage Inwards	397	11	7			
„ Outwards	692	15	8			
Salaries	438	14	2			
Bad Debts	156	13	9			
	£54,457	2	2	£54,457	2	2

Stock, 31st Dec., £3,972 16s. 4d.

11. The London and Westminster Grocery Co., Ltd., has a retail Branch in Manchester which is supplied with all goods from London. The Branch shop keeps its own Sales Ledger, receives cash against Ledger accounts, and remits the whole of the cash received daily to the Head Office. All wages and Branch expenses are drawn for by cheque weekly from the Head Office upon the imprest system.

From the undermentioned particulars supplied by the Branch manager, show how the Branch accounts would appear in the Head Office books, and prepare a Profit and Loss Account for the Branch shop for the six months to 31st Dec. —

Six months' Credit Sales	£2,387	Debtors, July 1st	£1,227
Returns Inwards	20	Goods received from Head Office	2,178
Cash received on Ledger A/cs	2,384	Rent, Taxes, etc., paid	375
Cash Sales	1,214	Wages and Sundry Expenses paid	396
Stock, July 1st	720		
Stock, Dec. 31st	1,121		

(*London Chamber of Commerce.*)

12. Four partners, A, B, C, and D, have businesses working independently in London, Swansea, and Glasgow. A and B manage the London branch, each receiving one-third of the profits from the London business, the balance being shared equally between C and D.

C manages the Swansea house, receiving half of the profits from the business there, the balance being shared equally between A, B, and D.

D manages the Glasgow business, receiving one-third of the profits arising therefrom, the balance being shared equally between A, B, and C.

At the end of each year a combined statement is prepared showing the general position of the firm and the condition of each partner's account.

From the following separate statements make up the combined account (without interest) and also the general Balance Sheet of the firm.

LONDON HOUSE

Creditors	£15,000	Debtors	£23,000
Swansea House	3,000	Glasgow House	2,000
A's Capital	10,000	Stock	13,000
B's do.	10,000	A's Drawings	1,000
Profit and Loss	9,000	B's do.	1,000
		Cash	7,000
	£47,000		£47,000

SWANSEA HOUSE

Creditors	£9,000	Debtors	£11,000
Glasgow House	4,000	London House	3,000
C's Capital	5,000	Stock	3,000
Profit and Loss	6,000	C's Drawings	1,000
		Cash	6,000
	£24,000		£24,000

GLASGOW HOUSE

Creditors	£7,500	Debtors	£9,000
London House . .	2,000	Swansea House . .	4,000
D's Capital . . .	5,000	Stock	5,000
Profit and Loss . .	7,200	D's Drawings . . .	500
		Cash	3,200
	£21,700		£21,700

(*Chartered Accountants.*)

13. Messrs. J. Silkstone & Sons, coal merchants, of London, opened a Branch business at Maidstone, on 1st January. The Trial Balance of the books of the Maidstone Branch, as on 31st December, was as follows—

TRIAL BALANCE

Head Office Adjustment A/c . .		£1,574
Coal Sales		1,750
Sundry Debtors	£640	
Horses, Carts, etc.	280	
Salaries, Rent, and Expenses .	620	
Cash in Hand	78	
Coal from Head Office (as invoiced)	1,748	
Sundry Creditors		42
	£3,366	£3,366

The stock of coal at Maidstone on 31st December was valued at £984.

Prepare a Profit and Loss A/c showing the result of the working of the Maidstone Branch for the year ended 31st December, and draft the entries necessary to incorporate the above figures in the Head Office books. (*London Chamber of Commerce.*)

14. B. J. R. & Co. are the owners of a business, working upon the multiple shop system. No Branch is allowed to purchase any stock, and can only make payments in cash through their petty cash account, which is replenished weekly upon the "imprest system." All receipts are paid daily into the local bank, upon which the Head Office alone can draw.

Upon what basis should goods be stocked out to the Branches.

Explain briefly the records which the Head Office books would show in the case of each Branch. (*Royal Society of Arts: Accounting and Banking.*)

15. Messrs. Baxter & Sons, whose head office is in London, remitted £500 to their Manchester Branch on 30th December. The books of the Head Office and the Branch are balanced as on 31st December each year. The above-mentioned remittance did not reach Manchester until the morning of 1st January. How would you deal with the amount in question in the Trial Balances of the Head Office and Branch and when preparing the combined Balance Sheet of the whole business? (*London Chamber of Commerce.*)

16. The Head Office of the Surrey Dairies, Ltd., supplied their Branches

for 6 months ended 31st Dec., with the following goods, and paid cash on their account as under —

Branch	K	P	Q
	£	£	£
Goods to Depots	700	600	900
Returns from Depots	10	9	21
Rates and Taxes paid by Head Office	31	29	40
Wages and Expenses paid by Head Office	39	40	45
The Depot Sales were	1,000	900	1,350
Returns from customers were	50	36	60
Depots collected cash from customers and despatched same to head office	850	720	1,200
The stocks on hand at 31st Dec. were	100	120	110

Frame the proper Journal entries to record the above transactions in the Head Office books, and

Write up in the Head Office ledger the accounts necessary to show the profit or loss made by each Branch and the balance due at each Branch from Sundry Debtors. (*Civil Service, 2nd Division Clerks.*)

17. The Manufacturing Co., Ltd., has a Nominal Capital of 15,000 shares of £10 each; and a Subscribed Capital of 8,000 shares, fully paid up. It manufactures goods for sale at its two Branches, A and B, which sell no goods other than those of the Company's manufacture. From the Trial Balance, on next page, extracted from the books of the Head Office and Branches as on 31st Dec., prepare, for submission to the Directors, Trading and Profit and Loss Accounts for the Head Office and for each of the Branches for the year ended 31st December, and a Balance Sheet of the Company as a whole as on that date.

Stocks on hand valued as on 31st December were —

Head Office	£10,527	4	5
Branch A	3,024	12	1
do. B	1,927	9	4

Write off the following depreciations —

Head Office Plant and Machinery	10%
Furniture and Fixtures—Head Office	5%
do. do. Branch A	5%
do. do. Branch B	5%

Create a reserve for Bad Debts of 2½% on the Sundry Debtors. Write off £5,000 from Goodwill and carry £10,000 to Reserve. All carriage on the goods sent to the Branches is paid by the Head Office. (*Royal Society of Arts.*)

18. The X Y Z Manufacturing Co., Ltd., has a Share Capital of £75,000, in 7,500 shares of £10 each, all issued and fully paid. It manufactures goods for sale at its two Branches (here referred to as A and B respectively), which sell goods of the Company's manufacture only. From the annexed Trial Balance of the books at the Head Office (where the Private or General Books are kept) and at the Factory and Branches (see pp. 766–7), construct an account to show, respectively, the result of the Manufacturing and the Gross Profit at each Branch.

NOTES. The Stocks on the 31st December were —

Factory	£9,177	5	7
Branch A	4,590	3	8
,, B	1,922	5	5

Allow depreciation for one year to 31st December on the following items of the 1st January at the rates indicated —

Factory Machinery, etc.	10 per cent.
Branch Fixtures, etc.	5 ,,

(No depreciation to be written off Head Office Furniture, etc.)

(EXERCISE 17—*contd.*)

THE MANUFACTURING COMPANY, LIMITED

TRIAL BALANCE—31ST DEC., 19—

Dr.

	Head Office £	s.	d.	Branch A £	s.	d.	Branch B £	s.	d.
Freehold Premises—									
Head Office	40,000	–	–						
Branch A	10,000	–	–						
Branch B	10,000	–	–						
Goodwill	30,000	–	–						
Plant and Machinery, Head Office	8,000	–	–						
Furniture and Fixtures—									
Head Office	500	–	–						
Branch A	700	–	–						
Branch B	800	–	–						
Cash at Bank	6,790	1	6						
Cash in hand	14	7	2	83	2	9	38	9	5
Stock in hand, 1st Jan.	11,245	5	1	2,812	3	7	1,994	17	6
Purchases (less Returns)	65,090	5	11						
Wages	39,651	1	11	2,419	–	–	2,622	3	4
Salaries	1,500	–	–	247	14	4	276	6	6
Carriage to Branches	1,516	14	7						
Rates and Taxes	823	2	9	442	6	7	328	14	4
General Expenses	517	9	2	2,016	4	6	1,796	6	8
Goods from Head Office				94,167	2	3	44,267	–	2
Bad Debts				1,552	8	2	746	17	11
Sundry Debtors				9,620	2	9	5,370	3	2
[1] Income Tax	447	10	8						
[1] Directors' Fees	1,000	–	–						
[1] Audit Fee	105	–	–						
Branch A Current A/c	301	18	3						
Branch B do.	3,353	–	8						
	£231,855	17	8	£113,360	4	11	£57,440	19	–

Cr.

	Head Office £	s.	d.	Branch A £	s.	d.	Branch B £	s.	d.
Share Capital	80,000	–	–						
Sundry Creditors	11,247	13	2	541	6	6	547	12	1
Goods to Branch A	94,167	2	3						
Do. do. B	44,267	–	2						
Sales (less Returns)				112,517	–	2	53,540	6	3
Profit and Loss A/c (balance)	2,174	2	1						
Head Office Current Account				301	18	3	3,353	–	8
	£231,855	17	8	£113,360	4	11	£57,440	19	–

[1] *No* apportionment of these items need be made.

EXERCISE 18 (*contd.*)

Dr. TRIAL BALANCE,

	Head Office			Factory			Branch A			Branch B		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Freehold Premises—												
Factory	50,000	–	–									
Branch A	10,000	–	–									
Branch B	10,000	–	–									
Goodwill	30,000	–	–									
Machinery, Fixtures, Furniture, etc., as at 1st January—												
Head Office	500	–	–									
Factory	7,500	–	–									
Branch A	2,000	–	–									
Branch B	1,500	–	–									
Bankers	6,790	1	6									
Cash Balance	16	2	6	135	9	2	89	3	2	58	1	8
Stocks (1st Jan.)				10,216	5	9	3,218	1	6	2,190	6	7
Purchases (Net)				76,516	2	9						
Wages				41,316	2	8						
Factory Manager's Salary				1,000	–	–						
Salaries and Wages							3,516	9	6	3,022	3	4
Carriage to Branches				2,517	6	9						
Rates and Taxes				316	2	9	569	7	6	452	9	2
Salaries and Office Expenses	3,519	6	8									
Sundry Expenses				517	6	8	3,017	9	2	1,869	4	6
Goods from Factory							75,267	3	2	45,350	–	1
Bad Debts							679	8	1	1,029	2	2
Debtors							9,620	2	9	5,730	2	3
Factory (Current Account)	2,333	1	11									
Branch B " "	3,672	3	10									
Head Office " "							4,914	3	3			
Income Tax	650	–	–									
Directors' Fees	1,500	–	–									
Auditors' Fees	105	–	–									
Debenture Interest	2,000	–	–									
	£132,085	16	5	£132,534	16	6	£100,891	8	1	£59,701	9	10

Draw up for submission to the Directors a Balance Sheet of the X Y Z Manufacturing Co., Ltd., on the basis of the figures given, also to show as regards each item, its amount at the several places separately, and for the business as a whole. The balance at credit of the Profit and Loss Account was £13,033 6s. 5d., including the amount brought from the preceding year. *Chartered Accountants.*)

19. The United Kingdom Trading Co., Ltd., has Branches at Dundee and Dover with Head Office at York. No trading is done at the Head Office. The Branches each keep a separate set of books which contain a complete record of their trading. The Capital Accounts and Bank Account are kept in another set of books at Head Office, the Branches being supplied with working capital from Head Office. From the following Trial Balances supplied by the Branches, and the Trial Balance of the Head Office books, prepare a Trading Account, showing the trading result of each branch, also a general Profit and Loss Account for the year ending 31st March and the Balance Sheet of the Company.

Reserve for Bad and Doubtful Debts, £250.
Reserve for Discount, 2½% on Debtors.
Wages owing, £125.
Stock, at 31st March, £2,960 17s. 9d.
Credit Southern Branch, 2½% allowance on £1,850.
Depreciation of Plant, 7½% on £3,500 to be charged in Branch Trading A/c.

31ST DECEMBER, 19— *Cr.*

	Head Office			Factory			Branch A			Branch B		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Share Capital	75,000	–	–									
Debentures Four per cent	50,000	–	–									
Creditors	550	10	–	9,584	11	3	176	7	6	359	2	6
Goods to Branch A				75,267	3	2						
" " B				45,350	–	2						
Sales							100,715	–	7	55,670	3	6
Profit and Loss (Balance of previous years' Profit)	1,621	3	2									
Head Office (Current Account)				2,333	1	11				3,672	3	10
Branch A (Current Account)	4,914	3	3									
	£132,085	16	5	£132,534	16	6	£100,891	8	1	£59,701	9	10

NORTHERN BRANCH

TRIAL BALANCE—31ST MARCH, 19—

	Dr. £	s.	d.	*Cr.* £	s.	d.
Head Office A/c (Amount due for Working Capital)				2,663	5	4
Trading Account, Stock, 1st April	2,879	2	3			
Purchases	8,368	4	5			
Sales				15,872	13	6
Trade Expenses	754	10	–			
Wages	3,370	13	4			
Salaries	290	–	–			
Rates, Rent, and Taxes	455	–	–			
Debtors	3,784	–	6			
Creditors				1,533	17	11
Discount A/c	67	15	10			
Returns and Allowances	100	10	5			
	£20,069	16	9	£20,069	16	9

SOUTHERN BRANCH
TRIAL BALANCE—31st March, 19—

	Dr. £	s.	d.	Cr. £	s.	d.
Head Office A/c (Amount due for Working Capital)				2,151	8	9
Trading A/c, Stock, 1st April	1,397	14	6			
Purchases	3,512	18	9			
Sales				8,806	12	2
Trade Expenses	474	2	8			
Wages	2,860	1	7			
Rent, Rates, and Taxes	274	3	6			
Debtors	2,960	7	2			
Creditors				662	4	9
Discount A/c				34	2	6
Salaries	175	–	–			
	£11,654	8	2	£11,654	8	2

Reserve for Discount 2½% on Debtors.
Reserve for Bad Debts, £125.
Expenses owing, £75.
Stock on 31st March, £1,564 10s. 2d.
Debit Northern Branch, 2½% allowance on £1,850.
Depreciation of Plant, 7½% on £2,500 to be charged in Branch Trading A/c.

HEAD OFFICE
TRIAL BALANCE—31st March, 19—

	Dr. £	s.	d.	Cr. £	s.	d.
Share Capital Issued, 13,000 Shares of £1 each				13,000	–	–
Calls in arrear	245	–	–			
4½% Debenture Stock				5,000	–	–
Plant & Machinery, Northern Branch	3,500	–	–			
" " Southern "	2,500	–	–			
Goodwill, Northern Branch	3,000	–	–			
" Southern "	2,500	–	–			
Bank	2,661	11	9			
Expenses (Head Office)	460	9	2			
Reserve Fund A/c				4,000	–	–
Profit and Loss A/c				500	–	–
£3,000 2½% Consols @ 80% (Reserve Fund Investment)	2,400	–	–			
Rent, Rates, Taxes, and Insurance	249	10	–			
Northern Branch A/c	2,663	5	4			
Southern "	2,151	8	9			
Debenture Interest A/c (paid to 30th Sept. last)	112	10	–			
Bank Charges	56	5	–			
	£22,500	–	–	£22,500	–	–

Expenses owing, £55.
Interest due on Consols, 3 mos. less Tax @ 1s. 2d.
Directors' Fees owing, £750.
Prepaid Rates, £32. (*West Riding of Yorkshire.*)

20. A Company, having its Head Office in London, owns a factory in South Africa. During the year £10,000 in cash has been remitted from London to the factory, and bills for £5,000, drawn by the manager in South Africa on the Head Office, have been accepted. At the end of the year it is found that there has been a loss on the working of the factory of £2,000, which is transferred to the Head Office. Show the entries in the Head Office books recording these transactions. (*Chartered Accountants.*)

21. A Limited Company has its Head Office in London, and a number of retail shops in various towns, to which all goods are invoiced from the Head Office at selling prices. What system would you recommend for dealing with these Branches, and how would the stocks at the Branches appear in the Balance Sheet of the Company? Give a *pro forma* example, stating the class of business you select for the purpose. (*Chartered Accountants.*)

22. The Southern Confectionery Co., Ltd., London, has a Branch at Bristol. Goods are invoiced to the Bristol Branch at selling prices, being cost plus 25 per cent. The Bristol Branch keeps its own Sales Ledger and transmits all cash received to London daily. All expenses are paid from London.

From the following details prepare a Profit and Loss Account of the Bristol Branch for the year.

Stock, 1st Jan. (at invoice prices)	£1,250	Cash received for Ledger A/cs	£3,300
Stock, 31st Dec. (at invoice prices)	1,500	Goods invoiced from London	9,100
Sundry Debtors, 1st Jan. .	700	Rent and Rates (paid from London) . . .	400
Sundry Debtors, 31st Dec.	900	Wages (paid from London) .	340
Cash Sales for the year .	5,400	Sundry Expenses (paid from London) . . .	80
Credit Sales for the year .	3,500		

(*Chartered Accountants.*)

23. Compile the Profit and Loss Account for the year to 31st December, and the Balance Sheet (as on that date) of the A.B. Merchant Trading Co., Ltd., from (*a*) London Trial Balance and (*b*) Brazil Trial Balance, combined—

(*a*)

Share Capital (Nominal £100,000). Issued 5,000 5% Preference Shares of £10 each, £5 called up and paid, and 50,000 Ordinary Shares of £1 each, 10s. called up and paid £50,000

London Factory . .	£10,000	Sales, Brazil shipments .	£80,000
Sundry Debtors . .	300	Stock, 1st Jan. . .	15,000
Directors' Fees . .	500	Brazil Remittances . *Cr.*	78,000
Salaries	850	Brazil Local Office . .	113,700
Office Rent and Expenses .	150	Sundry Creditors . .	4,000
Office Furniture . .	300	Bank	2,550
Outstanding Expenses *Cr.*	150	Bills Receivable . .	10,000
Purchases . . .	60,000	Profit and Loss A/c . *Cr.*	1,200

(b)

Head Office, London *Cr.*	£35,700	Salaries	£2,500
Sales	105,000	Landing Charges	8,000
Goods from London	80,000	Bank	2,000
Factory Building and Furniture	6,000	Sundry Debtors	27,000
Purchases	3,000	Stock, 1st Jan.	12,000
Sundry Creditors	1,500	Office Expenses	1,700

The Stocks on 31st Dec. are given as: London £16,000, and Brazil £13,000. (*Chartered Accountants.*)

24. The X.Z. Co., of London, has a Branch at Newcastle-on-Tyne. Goods sold at Newcastle are supplied from London, but no charge is made in the books as between the Branch and Head Office. On 31st December, the Branch Balance Sheet, after closing the books, was as follows—

Bought Ledger Balances	£3,290	Sales Ledger Balances	£46,700
Head Office	44,720	Premises Extension A/c, closed to Head Office	Nil
		Cash in Hand	50
		Cash at Bank	1,260
	£48,010		£48,010

In the six months up to 30th June next, the following transactions took place at the Branch—

Sales	£54,180	Cash collected on A/c Sales Ledger Accounts	£42,000
Purchases	4,200	Discount Allowed	2,500
Wages paid	5,700	Cash paid Bought Ledger Accounts	3,800
Salaries paid	560	Cash sent to London	29,560
Directors' Fees paid	200	Premises Extension, further payments to Contractors	1,500
Fire Insurance, 1 year's premium	480	Bank Balance, 30th June	1,450
Cash in hand, 30th June	60		

Set out the Head Office Account in the Newcastle books on 30th June, to show the entries after the books are closed, and also the Branch Balance Sheet at that date, assuming it to be made up on the same lines as on the previous 31st December. (*Chartered Accountants.*)

25. If the Rate of Exchange between Germany and Britain be 20·52 marks for £1, make a table showing in three columns the value in marks and pfennige of 1, 2, 3, up to 9 pence; 1, 2, 3, up to 9 shillings; and 1, 2, 3, up to 9 pounds; then use this table to write down the values of £69 15s. 6d. and £84 18s. 9d. in marks and pfennige. (*Institute of Bankers.*)

26. A in London owes B and Company in Paris 12,421 francs. B & Co.'s account in A's ledger shows a credit balance of £100, A having converted the francs into sterling at the rate of 124·21. A desires to pay B & Co., and for that purpose purchases in London a draft on Paris for 12,421 francs, for which he pays at the rate of 124·11. Make the entries in A's books, posting up and balancing off B's account.

27. Sebire Frères, Paris, remit to Brown & Co., London, a cheque for 5,000 francs, in full settlement of an account of £40. Brown & Co.'s bankers credit

them at the exchange of 124·21 francs to £. Set out the entry in Brown & Co.'s Cash Book; also their Ledger Account with Sebire Frères.

28. Messrs. Evan Williams & Co. are a firm of City Merchants whose principal interests are in the United Kingdom. They have, however, a growing business with Brazil, and invoice goods to their customers in local currency, accepting payment by means of bills in the same currency. State, briefly, how you would record the Brazilian transactions in the London books of the firm. (*Chartered Accountants.*)

29. J. W. purchased in France from M. de Marsac 100 dozen of wine at 40 francs per dozen, and a bill at 60 days was drawn upon him for the amount and accepted. The entries of the transaction were made by J. W. through his Journal in English money at the rate of exchange of 125 francs per £. The bill was afterwards paid by J. W.'s bankers, the rate of exchange at which he was charged being 124 francs per £. Journalize the above transactions, and show the account with M. de Marsac in J. W.'s Ledger.

30. Dombey & Son, of Bombay, the agents of Knox & Co., London, advise their principals that the net profits for the six months ending 30th June amount to Rupees 300,000, of which they remitted the following sums—

May 6th,	Rs.	100,000	@	1s. $4\frac{1}{16}$d.
July 29th,	,,	100,000	,,	1s. $4\frac{1}{32}$d.
Aug. 26th,	,,	100,000	,,	1s. $3\frac{31}{32}$d.

Messrs. Knox & Co. calculate the exchange at the uniform rate of 1s. 4d. to the rupee, and write off any differences to an Exchange Account. Write up Knox & Co.'s Cash Book, Journal, and Ledger showing Dombey & Son's Account, Profit and Loss Account, and Exchange Account (writing off any balance to Profit and Loss). (*Institute of Bankers.*)

31. A London company, owning a mine in India, receives monthly cash statements, in Indian currency, from its local manager.

How would you pass these returns into the company's books, and effect the necessary conversion into sterling?

Illustrate your answer by means of rulings of the book or books you would suggest, and enter therein six imaginary transactions. (*London Chamber of Commerce.*)

32. The Tinacotah Rubber Plantations, Ltd., own a rubber estate in the East. Practically all the expenditure is local, and is made in cash. The rubber harvested is sent to Hamburg for sale by auction, the net proceeds being remitted to London. The local currency fluctuates considerably.

You are required to outline briefly the system of Book-keeping you would advise the Company to employ, and to explain how you would deal with the questions of currency and exchange. (*Royal Society of Arts.*)

33. Messrs. Pernet Ducher & Co., Ltd., London, have a branch office in a South American Republic, where the exchange fluctuations are considerable. The books of the branch are kept in local currency only, and, at the close of each financial year, a Trial Balance, Profit and Loss Account, and Balance Sheet are sent to the London office.

Briefly describe how you would amalgamate the branch figures with those of the Head Office.

At what rates would you convert (1) the Profit and Loss Account balance,

(2) the Floating Assets, (3) the Fixed Assets, and (4) Remittances from London? (*London Chamber of Commerce.*)

34. Clarke, Ellis & Co. are a London firm, whose chief business is in England. They have, however, a considerable business with South American buyers, and invoice goods to them in local currency and accept payment by bills in the same currency. How would you record the South American transactions in the books of the firm? (*Royal Society of Arts: Accounting and Banking.*)

35. An English Company owns a Tea Plantation in Ceylon. All the tea produced is shipped to a London firm of tea brokers who duly furnish Account Sales and remit proceeds to the London office of the Company. The accounts of the detailed expenditure in Ceylon are kept in Indian currency and are sent to the Head Office in London monthly. The Account Sales and the account of the remittances to Ceylon are kept in sterling.

What method would you adopt for dealing with the two currencies employed when writing up the Head Office books? (*London Chamber of Commerce.*)

36. Convert the following Trial Balance into sterling, and write up the accounts in the Head Office and Branch books, giving the Journal entries in each case.

CHICAGO BRANCH TRIAL BALANCE

31st Dec., 19—

	Dr. Dols.	Cts.	*Cr.* Dols.	Cts.
Fixtures and Fittings	5,212	80		
Bills Receivable	11,832	90		
Sundry Debtors	19,682	56		
Sundry Creditors			4,741	30
Stock, 1st Jan.	10,351	00		
Purchases	36,930	64		
Sales			67,500	50
Discounts Allowed	1,250	68		
Discounts Earned			594	96
Sundry Expenses	2,767	60		
Wages and Salaries	6,825	50		
Rent, Rates, Taxes, and Insurance	1,451	12		
Bad Debts	878	58		
Depreciation	256	64		
Cash in hand	910	50		
Cash at Bank	9,121	14		
Head Office A/c, 1st Jan.			64,134	90
Remittances to Head Office	29,500	—		
	$136,971	66	$136,971	66

Stock, 31st Dec., $10,510.

Rate of Exchange at date of last balancing (31st Dec.)	4·87
,, ,, this 31st Dec. (current rate)	5·04
Average Rate for Year	4·96
Rate when Fixtures were purchased	4·87

In the Head Office books the Branch Account and the Remittances from Branch appear as £12,745 2s. 10d. and £5,797 7s. 4d. respectively.

37. From the following Trial Balances prepare Balance Sheet of the Brazil Trading Co., Ltd., as at 31st Dec., 19...

PARA TRIAL BALANCE

31st Dec., 19..

	Dr. Milreis	Cr. Milreis
London Office A/c (£19,625 0s. 10d.)		308,412
Furniture and Fixtures	8,348	
Sundry Debtors	178,924	
Sundry Creditors		31,900
Stock-in-Trade	177,840	
Cash at Bank	20,680	
Profit and Loss A/c (net profit for year)		45,480
	385,792	385,792

LONDON TRIAL BALANCE

31st Dec., 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Post Office A/c (Remittances thereto at actual rates)	19,625	–	10			
Share Capital A/c (40,000 Shares of £1 each, 10s. per share paid up)				20,000	–	–
Cash at Bank	915	13	4			
Profit and Loss A/c (balance 1st Jan.)				540	14	2
	£20,540	14	2	£20,540	14	2

Rate at date of last balancing (31st Dec.)	16d. per milreis
Rate this 31st Dec. (current rate)	15½d. ,,
Average Rate for Year	15d. ,,
Rate of day when Fixtures were purchased	16d. ,,

38. SHANGHAI TRIAL BALANCE

31st Dec., 19..

	Dr. Taels	Cr. Taels
Head Office A/c, 1st Jan.		92,713
Remittances to Head Office	19,000	
Stock, 1st Jan.	13,106	
Freehold Land and Buildings (Rate on date of Purchase, 3s. 4d.)	18,000	
Purchases	43,040	
Sales		68,002
Carried forward	93,146	160,715

SHANGHAI TRIAL BALANCE—(*contd.*)

31st Dec., 19..	Dr.	Cr.
	Taels	*Taels*
Brought forward .	93,146	160,715
Sundry Debtors	26,780	
Sundry Creditors		14,754
Fixtures and Fittings (Rate on date of Purchase 3s.)	6,333	
Carriage and Freight Inwards	2,631	
Salaries	2,908	
Rates and Taxes	669	
Sundry Expenses	365	
Cash in Hand	139	
Cash at Bank	13,644	
Plant & Machinery (Rate on date of Purchase 3s. 6d.)	18,000	
Wages	8,328	
Depreciation	2,526	
Stock, 31st Dec., 11,588 taels.	175,469	175,469

Convert the above Shanghai Trial Balance into sterling, and draw up the final accounts, making the necessary Journal entries to record the particulars in the Head Office books. Show also the accounts in the Head Office and Branch Ledgers.

Rate of Exchange last 31st Dec.	2s. 10d.	per tael
" " this " (current rate) .	3s. 6d.	"
Average Rate for Year	3s. 2d.	"

The Branch A/c, and the Remittances from Branch, appear in the Head Office books as £15,270 2s. 6d. and £2,850, respectively.

39. (*a*) From the following Balance Sheet and summary of transactions write up the foreign books and balance them, and show also the records in the London books. The Revenue items are converted into sterling at the average rate of exchange for each month. The Stores Account is kept both in currency and standard (18d.) dollars.

BRANCH BALANCE SHEET. 31st Dec., 19..

Liabilities	$	*Assets*	$
Sundry Creditors . .	15,000	Bank Balance . . .	10,000
London Office A/c . .	95,000	Sundry Debtors . .	40,000
		Stores on Hand . .	60,000
	$110,000		$110,000

Rate of Exchange, 31st Dec., \$ = 9½d.

SUMMARY OF TRANSACTIONS FOR JANUARY

		$
Stores received from London @ 9d. . .	£1,000	
" purchased locally		3,000
" used on Revenue A/c . .	Std. $6,000	
" " " Capital A/c . . .	Std. $4,000	

	$
Gross Revenue earned	40,000
Wages paid on Capital A/c	3,000
„ „ „ Revenue A/c	8,000
Trade Expenses accrued	6,000
Cash received from Debtors	40,000
Cash paid to Creditors	16,000
Average Rate of Exchange	9d.

Remittance to Head Office (Sterling bills on London)—

$12,000 @ 10½d. on 27th Jan.

Rate of Exchange, 31st Jan., 10d.

(*b*) Re-work the previous exercise, (*a*) using two sets of books, Gold Books kept in standard (18d.) dollars, and Paper Books kept in currency dollars, and show the records in the London books.

REVISION EXERCISE XIX

1. Journalize the following transactions—

W. Smith commenced trading on 1st January, paying to his Bank (the London and National Bank) on that day the sum of £1,000 as his Capital.

Jan. 2. He bought goods from X & Co., for which he received invoice amounting to £362 1s. 8d., and gave a bill for that amount.

Jan. 3. Having received an invoice from the H.B.C. Furnishing Co. for £131 10s. for office furniture, he paid by cheque, deducting 5 per cent discount.

Jan. 3. He bought goods from the London Trading Company amounting to £271 6s. 3d.; on receiving the goods he found that they were not up to sample and arranged that he should return part amounting to £51 6s. He paid for the balance by cheque on his bank.

Jan. 4. To oblige his friend, H. Jones, he advanced him £50 by cheque, receiving a bill for £55 payable in three months' time.

Jan. 5. He gave his clerk cheque for £10 for petty cash.

Jan. 6. He sold to George & Co. goods for £220, for which they paid in cash, deducting 2½ per cent discount.

Jan. 7. He bought goods on credit from W. and H. Johnson amounting to £862 11s. 1d.

Jan. 8. He drew cheque on his bank for £20, being £3 one week's salary to his clerk and £17 for his private use.

Jan. 9. He sold goods to A. Murray & Co., for £71 6s. 2d., receiving their cheque in payment, which he paid in to his bank.

Jan. 10. His clerk paid the sum of 15s. out of petty cash for stationery.

Jan. 11. Messrs. A. Murray & Co.'s cheque was returned unpaid by the bank. (*Civil Service, Second Division Clerks.*)

2. Explain what is meant by "discounting a bill," "posting a ledger," "taking out a Trial Balance," and explain the difference between a "Trial Balance" and a "Balance Sheet." (*Civil Service, Second Division Clerks.*)

3. I lent Mr. James Price on 18th January the sum of £100, he giving me as security his bill for that amount plus 5 per cent interest for three months. Make out the bill and state on what date Mr. James Price must pay it. Show the entries necessary to be made in Mr. Price's journal to record the transaction. (*Civil Service, Second Division Clerks.*)

4. Define an "Account Current," and make out such an account for North & Co. in respect of the following transactions with East & Co.—

Sept.	16.	Goods sold to East & Co., £100, due 1st Oct.
Oct.	1.	Received cash from East & Co., £45.
,,	21.	Goods bought of East & Co., £250, due 1st Dec.
Nov.	1.	Paid to East & Co., cash, £165.
Dec.	1.	Paid to East & Co., cash, £150.
,,	5.	Goods bought of East & Co., £250, due 1st Jan.
,,	10.	Goods bought of East & Co., £110, due 1st Jan.
Jan.	1.	Paid cash to East & Co., £300.
,,	9.	Goods sold to East & Co., £10, due 1st Feb.

The account to be made up to 1st February. Interest to be at 6 per cent, which may be calculated by months instead of days. (*Chartered Accountants.*)

5. Mr. Arthur Wilson, finding his business increasing, arranged to take into partnership Mr. Henry Day.

Wilson's assets and liabilities were as follows—

Assets	£	s.	d.	*Assets*	£	s.	d.
Freehold Factory	2,500	–	–	Balance at Bank	120	18	10
Machinery	1,200	–	–	Office Furniture	72	3	4
Stock	721	4	6	Sundry Expenses paid in advance	42	–	–
Book Debts	1,452	8	9	Loan to J. Smith	100	–	–
Bills Receivable	212	17	3				
Cash in Hand	8	4	1				
Liabilities							
Mortgage on Factory	1,000	–	–	Bills Payable	416	15	–
Sundry Creditors	826	5	7				

The difference between his assets and liabilities is his capital.

Henry Day is to pay Wilson the sum of £1,000 as premium and to put in the sum of £1,500 as his capital in cash.

Wilson puts the amount of the premium into the business as further capital.

Make out a Balance Sheet showing the position of the firm after these arrangements have been carried out. (*Civil Service, Second Division Clerks.*)

6. You are required to make the necessary Journal entries to adjust the following matters—

(*a*) An investigation of the accounts of a defaulting cashier discloses that £318 4s. 6d. has been received by him from the firm's debtors, and £10 12s. 4d. for cash sales, and that he had paid £6 8s. 4d. for goods, £66 5s. 4d. to Creditors (net), discount deducted having been £1 13s. 9d. No entries of these items had been made in the books. Petty cash expenses book shows that there is £5 3s. 6d. due to him.

(*b*) An amount of £95 standing to the debit of A. Brown you find is a payment for 2 horses and a cart.

(*c*) Goods sold of the value of £100 are packed, and the invoice for them sent to the purchasers. Stock-taking intervenes, and the parcel of goods is not dispatched, but is included in the stock figure. This is, however, discovered before the year's accounts are finally drafted.

(*d*) A discounted acceptance for £100 realizes £95 in cash. You find that the customer from whom the acceptance was received has been credited with £95. (*Civil Service, Second Division Clerks.*)

7. White, Gratton & Co.'s Balance Sheet on 31st December showed the following Assets and Liabilities—

	£		£
Land and Works . .	146,000	Cash at Bankers and in Hand	6,500
Stock and Work in progress	140,200	Bills Receivable . .	7,000
Patents, Licences, etc. .	10,000	Creditors	71,200
Book Debts . . .	75,000		

A Limited Company was formed with a Share Capital of £300,000, divided into 150,000 £1 Ordinary and £150,000 £1 5 per cent Preference Shares, and a Debenture Capital of 1,000 £100 4 per cent Debentures, and took over the assets of the firm, except cash and bills, and accepted the liability to creditors, for the consideration of £350,000, payable in 50,000 fully paid Ordinary and 50,000 fully paid Preference Shares and 500 Debentures, and the balance in cash.

A prospectus was issued and the balance of the Shares and Debentures was offered to the public as follows—

Payable	*Per Share*	*Per Debenture*
On Application . .	2s. 6d.	20 per cent
On Allotment . . .	7s. 6d.	30 ,,
On First Call . . .	5s. 0d.	25 ,,
On Second Call . .	5s. 0d.	25 ,,

All the Shares and Debentures were applied for and were allotted, and payments were made when due.

Make the necessary entries in the Company's books recording the transactions and the discharge of the indebtedness to the vendor firm, and show how the Balance Sheet of the Company will appear. (*Chartered Accountants.*)

8. Prepare a Ledger account showing the sum due, after making undermentioned apportionments, to the Vendor of a property, the sale price of which is £800. The date for settlement is 1st February, 19.., but completion of the purchase is made on 15th February, 19.., 5 per cent interest being chargeable in the meanwhile.

Schedule "A" tax for the year ending 5th April, 19.., amounting to £2 12s. 6d. and Land Tax for the year ending 25th March, 19.., amounting to 9s. 6d. had been paid by the Purchaser who occupied the premises. The rent was £56 per annum, and was paid up to the previous 25th December, 19... The Fire Insurance Premium for the year ending 25th March, 19.., amounting to 12s., had been paid by the Vendor. A ground rent of £5 per annum on the property payable in advance for the year ending 31st December, 19.., had been paid by the Vendor. (*Civil Service, Second Division Clerks.*)

9. The following is the Balance Sheet of A, B, & C on 31st December—

Liabilities	£	*Assets*	£
Creditors	2,000	Cash	500
Bank Loan . . .	500	Stock	2,000
Bills Payable . . .	500	Plant and Tools . .	2,000
A—Capital . . .	2,500	Sundry Debtors . .	1,000
B—Capital . . .	1,500	Bills Receivable . .	1,000
		C—Capital overdrawn .	500
	£7,000		£7,000

C is insolvent, but his partners recover from his private estate £250. It is decided to wind up the partnership, and the assets realize: Cash £500, Stock, £1,600, Plant and Tools £1,500, Sundry Debtors £750, Bills Receivable £700. Profits and Losses are divided equally. What would be the position of each partner's account on the winding-up of the partnership in accordance with the Partnership Act, the costs of realization amounting to £250? (*Chartered Accountants.*)

10. On the dissolution of the partnership of R, S, and T, the following is a summary of the state of their accounts—

Dr.	£	s.	d.	*Cr.*	£	s.	d.
Sundry Assets, which realized . .	21,050	–	–	Sundry Liabilities .	5,500	–	–
T's Capital A/c, overdrawn . . .	750	–	–	S's Capital A/c .	7,000	–	–
Subject to Interest at 6% per annum, six months owing .	22	10	–	R's Capital A/c. .	11,000	–	–
				R's Balance of Undrawn profits, and Loan A/c . .	2,100	–	–
				Subject to Interest at 6% per annum, six months owing .	63	–	–
	£21,822	10	–		£25,663	–	–

The partnership agreement provides for profits and losses to be shared as follows: R (a limited partner) one-fourth, S one-half, and T one-fourth. Adjust the partnership accounts, and show the position of each partner in the winding-up. (*Chartered Accountants.*)

CHAPTER XX

BANKRUPTCY, STATEMENT OF AFFAIRS, DEFICIENCY ACCOUNT, TRUSTEES' ACCOUNTS

Bankruptcy Laws and their Objects. The law that governs bankruptcy proceedings is the Bankruptcy Act, 1914, which is a consolidation of the Bankruptcy Acts, 1883 and 1890, and of the bankruptcy part of the Bankruptcy and Deeds of Arrangement Act, 1913, and came into operation as on the 1st January, 1915. A more recent Act relating to bankruptcy is the Bankruptcy (Amendment) Act, 1926. The object of bankruptcy laws is to extricate a debtor who has become hopelessly involved in financial difficulties by distributing his estate equitably among his creditors, and releasing him from all further liability in respect of his past debts.

Courts of Bankruptcy. Proceedings must be taken in the County Court of the district in which the debtor has resided or carried on business for the longest period during the six months preceding the bankruptcy. The County Court must be one of those that have had bankruptcy jurisdiction conferred upon them. If the debtor is resident in the metropolitan district, or abroad, or if his residence is unknown, then proceedings may be taken in the High Court. The Board of Trade has important powers in controlling and supervising bankruptcy proceedings. (Sections 96, 97, and 98.)

Persons who may be made Bankrupt. Any person who has the capacity to contract may be made bankrupt. An infant cannot be made bankrupt. A married woman who carries on a trade or business can now be made bankrupt, whether she is carrying on business separately from her husband or not. Companies registered under the Companies Act, 1929, cannot be made bankrupt; they must be wound up. Partnerships, and also limited partnerships, can be made bankrupt. A deceased debtor cannot be made bankrupt, but his estate may be administered in bankruptcy. (Sections 125, 126, 127, and 130.)

Acts of Bankruptcy. An Act of Bankruptcy is an act or default on the part of a debtor deemed to be evidence of his insolvency, and one which enables a creditor to present a petition against him in the Bankruptcy Court. By Section 1 of the Act, a debtor commits an act of bankruptcy in each of the following cases—

(*a*) If in England or elsewhere he makes a conveyance or assignment of his property to a trustee or trustees for the benefit of his creditors generally;

(*b*) If in England or elsewhere he makes a fraudulent conveyance, gift, delivery, or transfer of his property, or any part thereof;

(*c*) If in England or elsewhere he makes any conveyance or transfer of

his property, or any part thereof, or creates any charge thereon, which would under this or any other Act be void as a fraudulent preference if he were adjudged bankrupt;

(*d*) If with intent to defeat or delay his creditors he does any of the following things, namely, departs out of England, or being out of England remains out of England, or departs from his dwelling-house, or otherwise absents himself, or begins to keep house;

(*e*) If execution against him has been levied by seizure of his goods under process in any action in any Court, or in any civil proceeding in the High Court, and the goods have been either sold or held by the sheriff for twenty-one days;

(*f*) If he files in the Court a declaration of his inability to pay his debts, or presents a bankruptcy petition against himself;

(*g*) If a creditor has obtained a final judgment or final order against him for any amount, and, execution thereon not having been stayed, has served on him in England, or, by leave of the Court, elsewhere, a bankruptcy notice under this Act, and he does not, within seven days after service of the notice in case the service is effected in England, and in case the service is effected elsewhere, then within the time limited in that behalf by the order giving leave to effect the service, either comply with the requirement of the notice or satisfy the Court that he has a counterclaim, set-off, or cross demand which equals or exceeds the amount of the judgment debt or sum ordered to be paid, and which he could not set up in the action in which the judgment was obtained, or the proceedings in which the order was obtained.

(*h*) If the debtor gives notice to any of his creditors that he has suspended, or that he is about to suspend, payment of his debts.

By section 1 (2) —

the expression "a debtor," unless the context otherwise implies, includes any person, whether a British subject or not, who at the time when any act of bankruptcy was done or suffered by him—

(*a*) was personally present in England; or

(*b*) ordinarily resided or had a place of residence in England; or

(*c*) was carrying on business in England, personally, or by means of an agent or manager; or

(*d*) was a member of a firm or partnership which carried on business in England.

Bankruptcy Notice. By section 2—

A bankruptcy notice under this Act shall be in the prescribed form, and shall require the debtor to pay the judgment debt or sum ordered to be paid in accordance with the terms of the judgment or order, or to secure or compound for it to the satisfaction of the creditor or the Court, and shall state the consequences of non-compliance with the notice, and shall be served in the prescribed manner.

Petition. Bankruptcy proceedings are commenced by the presentation of a petition for a Receiving Order to be made against the debtor. A petition may be made by the debtor himself, who must allege inability to pay his debts. By section 4 of the Act, a creditor is not entitled to present a bankruptcy petition against a debtor unless —

(*a*) The debt owing by the debtor to the petitioning creditor or, if two

or more creditors join in the petition, the aggregate amount of debts owing to the several petitioning creditors, amounts to fifty pounds; and

(*b*) The debt is a liquidated sum, payable either immediately or at some certain future time; and

(*c*) The act of bankruptcy on which the petition is grounded has occurred within three months before the presentation of the petition; and

(*d*) The debtor is domiciled in England, or within a year before the date of the presentation of the petition has ordinarily resided, or had a dwelling-house or place of business, in England, or (except in the case of a person domiciled in Scotland or Ireland, or a firm or partnership having its principal place of business in Scotland or Ireland) has carried on business in England, personally or by means of an agent or manager, or (except as aforesaid) is or within the said period has been a member of a firm or partnership of persons which has carried on business in England by means of a partner or partners, or an agent or manager.

If the debtor is the petitioner, the Court will make the Order at once, unless it is merely an attempt on his part to evade a committal order. If the petition is made by a creditor, a copy must be served on the debtor, and not less than eight days after such service the Court will hear the petition. It may then either make the Receiving Order or dismiss the petition as it thinks fit. Whoever presents the petition must pay the stamp duty of £6, and make the deposit required by the Bankruptcy Rules.

Receiving Order. If the Court is satisfied as to the alleged act or acts of bankruptcy on the part of the debtor, it will forthwith make a Receiving Order against him, and this fact will be duly advertised in the *Gazette*. The effect of the Receiving Order is to constitute the Official Receiver the receiver of the debtor's property, and to stay any proceedings against the debtor by the unsecured creditors.

Fraudulent Preference. Mention has previously been made that a fraudulent preference constitutes an act of bankruptcy. Section 44 deals with a fraudulent preference as follows —

Every conveyance or transfer of property, or charge thereon made, every payment made, every obligation incurred, and every judicial proceeding taken or suffered by any person unable to pay his debts as they become due from his own money in favour of any creditor, or of any person in trust for any creditor, with a view of giving such creditor, or any surety or guarantor for the debt due to such creditor, a preference over the other creditors, shall, if the person making, taking, paying or suffering the same is adjudged a bankrupt on a bankruptcy petition presented within three months after the date of making, taking, paying or suffering the same, be deemed fraudulent and void as against the trustee in the bankruptcy.

Statement of Affairs. This is the statement of an insolvent debtor's assets and liabilities, prepared for submission to the Official Receiver and creditors. Particulars are given, in an inner column, of all secured debts and of the securities in connection with them. The assets available for the general creditors are estimated

at their realizable value and placed on one side of the statement; the liabilities to be paid out of these assets are placed on the other side. The excess of the liabilities over the assets then shows the estimated *deficiency*. The Statement must be submitted within three days of the Receiving Order if made on the debtor's petition, or within seven days if made on a creditor's petition. It must also be prepared on the official forms. (Section 14.)

Meeting of Creditors. The creditors meet to discuss the Statement of Affairs submitted by the debtor, together with the Official Receiver's observations on it. They may resolve (Section 13)—

(1) To accept a composition in satisfaction of their debts.
(2) To agree to a scheme for the arrangement of the debtor's affairs.
(3) That the debtor shall be adjudged bankrupt; that a trustee be appointed to administer the estate; that a committee of inspection be appointed to assist the trustee.

In each case the consent of the Court is necessary. If either of the first two courses is approved, the Receiving Order is rescinded. In the last case the debtor is adjudged bankrupt by the Court, and notice thereof advertised in the *Gazette*. Almost without exception, a debtor against whom a Receiving Order has been made is required to undergo a public examination.

Composition. This is a legal arrangement between a debtor and his creditors, whereby each creditor agrees to accept a part of his debt in full settlement of the whole of it.

Deed of Arrangement. This is a deed embodying an arrangement arrived at between a debtor and his creditors to assign all his property to a trustee for their benefit, to pay them by instalments, or to compound with them. Such a deed is governed by the Deeds of Arrangement Act, 1914. It enables a debtor to escape the publicity and stigma of the Bankruptcy Court; while the creditors obtain a larger dividend, as the expenses consequent on bankruptcy are avoided. Such an arrangement, however, constitutes an act of bankruptcy, and a dissentient creditor may present a bankruptcy petition against the debtor founded on the deed. Should the debtor be declared bankrupt within three months of the execution of the deed, the latter becomes void against the trustee in bankruptcy. Owing to this contingency, the trustees under such deeds generally allow three months to elapse before distributing any of the assets realized.

Committee of Inspection. This is a small number of creditors, not more than five and not less than three, appointed by the whole body of creditors to supervise the winding-up of a debtor's or company's affairs under the trustee in bankruptcy, liquidator, or Official Receiver. When there is no committee of inspection, its functions are exercised by the Board of Trade.

Public Examination. The examination is held in open Court as

soon as possible after the debtor has furnished his Statement of Affairs, unless the Receiving Order has been rescinded. Questions may be put to the debtor, by either the Official Receiver or the creditors, as to his conduct, his business affairs, and his property.

Discharge. When the public examination is concluded, the debtor may apply to the Court for an order of discharge. The Court has power to grant it, refuse it, or to suspend it for a time, as it thinks fit, taking into consideration all the circumstances of the case. By Section 26 (2), the Court must refuse the discharge in all cases where the bankrupt has committed any misdemeanour under the Bankruptcy Acts, or in connection with his bankruptcy, or any felony connected with this bankruptcy (unless for special reasons the Court otherwise determines). It may also (1) refuse the discharge, (2) suspend it for not less than two years, or (3) suspend it until a dividend of 10s. in the £ has been paid to the creditors, or (4) require the debtor, as a condition of his discharge, to consent to judgment being entered against him for the unsatisfied balance of the debts proved in the bankruptcy, on proof of any of the following facts—

(*a*) That the bankrupt's assets are not of a value equal to ten shillings in the pound on the amount of his unsecured liabilities, unless he satisfies the Court that the fact that the assets are not of a value equal to ten shillings in the pound on the amount of his unsecured liabilities has arisen from circumstances for which he cannot justly be held responsible;

(*b*) That the bankrupt has omitted to keep such books of account as are usual and proper in the business carried on by him, and as sufficiently disclose his business transactions and financial position within the three years immediately preceding his bankruptcy;

(*c*) That the bankrupt has continued to trade after knowing himself to be insolvent;

(*d*) That the bankrupt has contracted any debt provable in the bankruptcy without having at the time of contracting it any reasonable or probable ground of expectation (proof whereof shall lie on him) of being able to pay it;

(*e*) That the bankrupt has failed to account satisfactorily for any loss of assets or for any deficiency of assets to meet his liabilities;

(*f*) That the bankrupt has brought on, or contributed to, his bankruptcy by rash and hazardous speculations, or by unjustifiable extravagance in living, or by gambling, or by culpable neglect of his business affairs;

(*g*) That the bankrupt has put any of his creditors to unnecessary expense by a frivolous or vexatious defence to any action properly brought against him;

(*h*) That the bankrupt has, within three months preceding the date of the receiving order, incurred unjustifiable expense by bringing a frivolous or vexatious action;

(*i*) That the bankrupt has, within three months preceding the date of the receiving order, when unable to pay his debts as they become due, given an undue preference to any of his creditors;

(*j*) That the bankrupt has, within three months preceding the date of the receiving order, incurred liabilities with a view of making his assets equal to ten shillings in the pound on the amount of his unsecured liabilities;

(*k*) That the bankrupt has, on any previous occasion, been adjudged bankrupt, or made a composition or arrangement with his creditors;

(*l*) That the bankrupt has been guilty of any fraud or fraudulent breach of trust.

Effect of the Order of Discharge. As soon as the debtor has obtained his order of discharge, he is released from all debts provable in the bankruptcy, except—

1. Debts to the Crown.
2. Debts incurred through fraud, or through a fraudulent breach of trust.
3. Judgment debts in an action for seduction, in affiliation proceedings, or in a matrimonial cause. (Section 28.)

Undischarged Bankrupt. This is an insolvent debtor who has not succeeded in obtaining his discharge. By Section 155—

> Where an undischarged bankrupt—
>
> (*a*) Either alone or jointly with any other person obtains credit to the extent of ten pounds or upwards from any person without informing that person that he is an undischarged bankrupt; or
>
> (*b*) Engages in any trade or business under a name other than that under which he was adjudicated bankrupt without disclosing to all persons with whom he enters into any business transaction the name under which he was adjudged bankrupt;
>
> he shall be guilty of a misdemeanour.

The maximum penalty, under Section 164, is two years' imprisonment, with or without hard labour.

Annulment of Adjudication. The Court has power to annul any Receiving Order that has been made on improper grounds. Where a bankrupt subsequently makes a satisfactory arrangement with his creditors, or afterwards pays his debts in full, the Court may annul the bankruptcy. If this happens, the debtor is restored to his original position before the bankruptcy proceedings.

Joint and Separate Estates. By Section 33 (6) it is enacted as follows—

> In the case of partners, the joint estate shall be applicable in the first instance in payment of their joint debts, and the separate estate of each partner shall be applicable in the first instance in payment of his separate debts. If there is a surplus of the separate estates, it shall be dealt with as part of the joint estate. If there is a surplus of the joint estate, it shall be dealt with as part of the respective separate estates in proportion to the right and interest of each partner in the joint estate.

Small Bankruptcies. By Section 129, it is enacted—

> Where a petition is presented by or against a debtor, if the Court is satisfied by affidavit or otherwise, or the Official Receiver reports to the Court that the property of the debtor is not likely to exceed in value three hundred pounds, the Court may make an order that the debtor's estate be administered in a summary manner, and thereupon the provisions of this Act shall be subject to the following modifications—
>
> (i) If the debtor is adjudged bankrupt, the Official Receiver shall be the trustee in the bankruptcy;
>
> (ii) There shall be no committee of inspection, but the Official Receiver

may do, with the permission of the Board of Trade, all things which may be done by the trustee with the permission of the committee of inspection;

(iii) Such other modifications may be made in the provisions of this Act as may be prescribed by general rules with the view of saving expense and simplifying procedure; but nothing in this section shall permit the modification of the provisions of this Act relating to the examination or discharge of the debtor.

Provided that the creditors may at any time, by special resolution, resolve that some person other than the Official Receiver be appointed trustee in the bankruptcy, and thereupon the bankruptcy shall proceed as if an order for summary administration had not been made.

Administration Order. In small cases of insolvency, where the total liabilities do not exceed £50, bankruptcy proceedings are not possible, and the Court is empowered to make an Administration Order, and compel the debtor to pay the whole or a portion of his debts either at once, or by stated instalments, out of his earnings. (B.A. 1883, Section 122, which is not repealed by the 1914 Act.)

Keeping Books. Unless a debtor can show his liabilities do not exceed £500 on the occasion of his first bankruptcy (subsequent bankruptcies £100), or the omission was honest and excusable, failure to keep books amounts to misdemeanour. (Bankruptcy (Amendment) Act, 1926.)

STATEMENT OF AFFAIRS

Official Forms. On pages 786 to 792 will be found reduced facsimiles of the prescribed forms, Lists A to K, List L, and Front Sheet (or Statement). Each list has to be signed by the debtor and dated, thus—

Signature..

Dated..19....

List "A," Unsecured Creditors. On this list appear the names of all cash and trade creditors who have merely a claim upon the general assets of the estate. Creditors on Promissory Notes and Bills Payable are unsecured creditors, these documents not being documents of title. The balances of debts that exceed the preferential limit (rent, wages, salaries, etc., as per Lists F and G) are also shown on this list. On the printed form will be found notes respecting the treatment of contra accounts and the particulars required of any bills of exchange held by creditors.

List "B," Fully Secured Creditors. On this list appear the names of creditors who hold a covering security for their debts, such as a mortgage, charge, or lien upon any property of the debtor. The holder of an absolute Bill of Sale is also a secured creditor as regards the chattels mentioned therein. Goods sent on approval, or on sale or return, remain the property of the owner unless they are in the order and disposition of the debtor (Sec. 38 (2) (c), and

In the High Court of Justice

In Bankruptcy

No. of 19

Re

N.B.—You are required to fill up carefully and accurately this sheet, and the several sheets A, B, C, D, E, F, G, H, I, J, and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz.—the day of 19

Such sheets when filled up will constitute your statement of affairs and must be verified by oath or declaration.

STATEMENT OF AFFAIRS

At 19 , date of Receiving Order.

Gross Liabilities £ s. d.	Liabilities (as stated and estimated by Debtor)	£ s. d.	Expected to Rank £ s. d.	Assets (as stated and estimated by Debtor)	£ s. d.	Estimated to produce. £ s. d.
	Unsecured creditors as per list (A)			Property as per list (H), viz.—		
	Creditors fully secured as per list (B)			(a) Cash at banker's		
	Estimated value of securities			(b) Cash in hand		
	Surplus			(c) Cash deposited with Solicitor for costs of petition ..		
	Less amount thereof carried to sheet (C) ..			(d) Stock-in-Trade (cost £)		
	Balance thereof to contra	£		(e) Machinery		
	Creditors partly secured as per list (C) ..			(f) Trade Fixtures, Fittings, Utensils, etc.		
	Less estimated value of securities			(g) Farming Stock		
				(h) Growing Crops and Tenant Right		
				(i) Furniture		
				(j) Life Policies		
				(k) Other Property, viz.—		
				Total as per list (H) ..		
	Liabilities on Bills discounted other than Debtor's own acceptances for value as per list (D), viz.—			Book debts, as per list (I), viz. —		
	On accommodation bills as Drawer, Acceptor, or Endorser .. .. £ " "			Good		
	On other bills as Drawer or Endorser .. .. £ " "			Doubtful		
	Of which it is expected will rank against the estate for dividend			Bad		
	Contingent or other liabilities as per list (E) £ " "			Estimated to produce		
	Of which it is expected will rank against the estate for dividend			Bills of exchange or other similar securities as per list (J) .. .. £ " "		
				Estimated to produce.. ..		
	Creditors for rent, etc., recoverable by distress as per list (F) ..			Surplus from securities in the hands of creditors fully secured (per contra)		
	Creditors for rates, taxes, wages, etc., payable in full as per list (G) ..					£
	Sheriff's charges payable under Sec. 41 of the Bankruptcy Act, 1914, estimated at			Deduct creditors for distrainable rent, and for preferential rates, taxes, wages, Sheriff's Charges, etc. (per contra)		
		£				£
	Deducted contra ..	£		Deficiency explained in statement list (K)		
			£			£

I of in the County of make oath and say that the above statement and the several lists hereunto annexed, marked A, B, C, D, E, F, G, H, I, J, and K, are, to the best of my knowledge and belief, a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at
in the County of
this day of 19 , } (Signature)
Before me

LIST "A." UNSECURED CREDITORS

The Names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upwards being placed first.

No.	Name	Address and Occupation	Amount of Debt	Date when contracted		Consideration
				Month	Year	

NOTES.—(1) When there is a contra account against the Creditor less than the amount of his claim against the estate, the amount of the Creditor's claim and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus—

Total amount of claim .. .. .. £ : :
Less contra account .. .. .. £ : :
£ : :

No such set-off should be included in sheet "I."

(2) The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such Creditor.

LIST "B." CREDITORS FULLY SECURED.

No.	Name of Creditor	Address and Occupation	Amount of Debt	Date when contracted		Consideration	Particulars of Security	Date when given	Estimated value of Security	Estimated Surplus from Security
				Month	Year					

LIST "C." CREDITORS PARTLY SECURED

No.	Name of Creditor	Address and Occupation	Amount of Debt	Date when contracted		Consideration	Particulars of Security	Month and Year when given	Estimated value of Security	Balance of Debt Unsecured
				Month	Year					

LIST "D." LIABILITIES OF DEBTOR ON BILLS DISCOUNTED OTHER THAN HIS OWN ACCEPTANCES FOR VALUE

No.	Acceptor's Name, Address and Occupation	Whether liable as Drawer or Endorser	Date when Due	Amount		Holder's Name, Address and Occupation (if known)	Amount expected to rank against Estate for Dividend
				Accommoda-tion Bills	Other Bills		

LIST "E." CONTINGENT OR OTHER LIABILITIES

Full particulars of all Liabilities not otherwise Scheduled to be given here.

No.	Name of Creditor or Claimant	Address and Occupation	Amount of Liability or Claim	Date when Liability incurred		Nature of Liability	Amount expected to rank for Dividend
				Month	Year		

LIST "F." CREDITORS FOR RENT, ETC., RECOVERABLE BY DISTRESS

No.	Name of Creditor	Address and Occupation	Nature of Claim	Period during which claim accrued due	Date when due	Amount of Claim	Amount Recoverable by Distress	Difference ranking for Dividend (to be carried to List A)

LIST "G." PREFERENTIAL CREDITORS FOR RATES, TAXES, AND WAGES

No.	Name of Creditor	Address and Occupation	Nature of Claim	Period during which Claim accrued due	Date when due	Amount of Claim	Amount payable in full	Difference ranking for Dividend (to be carried to List A)

LIST "H." PROPERTY

Full particulars of every description of property in possession and in reversion as defined by section 167 of the Bankruptcy Act, 1914, not included in any other list, are to be set forth in this list.

Full Statement and Nature of Property	Estimated to Produce
(a) Cash at Bankers..	
(b) Cash in hand	
(c) Cash deposited with Solicitor for Costs of Petition	
(d) Stock-in-Trade at (cost £)	
(e) Machinery at	
(f) Trade Fixtures, Fittings, Utensils, etc., at..	
(g) Farming Stock	
(h) Growing Crops and Tenant Right at	
(i) Household Furniture and Effects at	
(j) Life Policies..	
(k) Other Property (state particulars), viz.—	

LIST "I." DEBTS DUE TO THE ESTATE

No.	Name of Debtor	Residence and Occupation	Amount of Debt.			Folio of Ledger or other Book where particulars to be found	When contracted		Estimated to Produce	Particulars of any Securities held for Debt
			Good	Doubtful	Bad		Month	Year		

NOTE.—If any debtor to the estate is also a creditor, *but for a less amount than his indebtedness*, the gross amount due to the estate and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus—

	£	s.	d.
Due to estate ..	..	..	..
Less contra account	..	..	..

No such claim should be included in sheet "A."

LIST "J." BILLS OF EXCHANGE, PROMISSORY NOTES, ETC., AVAILABLE AS ASSETS

No.	Name of Acceptor of Bill or Note	Address, etc	Amount of Bill or Note	Date when due	Estimated to Produce	Particulars of any Property held as Security for Payment of Bill or Note

LIST "K." DEFICIENCY ACCOUNT

Excess of Assets over Liabilities on the.......... day of.............. 19.... (if any)..							Excess of Liabilities over Assets on the[1].......... day of.......... 19.... (if any)						
Net profit (if any) arising from carrying on business from the[1]............ day of.................. 19...., to date of Receiving Order, after deducting usual Trade Expenses ..							Loss (if any) arising from carrying on business from the[1].........day of .... 19...., to date of Receiving Order, after deducting from Profits usual Trade Expenses						
Income or profit from other sources (if any) since the[1].............day of............. 19....							Bad Debts (if any) as per Schedule "I"[2]						
Deficiency as per Statement of Affairs..							Expenses incurred since the[1] ..... day of............... 19...., other than usual Trade Expenses, viz.: Household Expenses of self and[3]................						
							Other losses and expenses (if any)[4]—						
							Surplus as per Statement of Affairs (if any)						
Total amount to be accounted for[5]							Total amount accounted for[5]						

NOTES.— [1] This date should be 12 months before date of Receiving Order, or such other time as Official Receiver may have fixed.

[2] This Schedule must show when debts were contracted.

[3] Add "Wife and Children" (if any), stating number of latter.

[4] Here add particulars of other expenses or losses (if any), including depreciation in the value of stock and effects, or other property as estimated for realization, and liabilities (if any), for which no consideration received.

[5] These figures should agree.

LIST "L"

(In substitution for such of the Sheets named "A—J" as will have to be returned blank.)

LIST	PARTICULARS AS PER FRONT SHEET	DEBTOR'S REMARKS

do not form part of the bankrupt's estate. A banker may be also a secured creditor in respect of an overdraft, inasmuch as he has a lien on the securities in his possession, unless they have been deposited with him merely for safe custody. A creditor may realize his security and prove for the balance of his debt (if any), or he may surrender his security and prove for the whole of the debt. Should, however, the security in the creditor's possession realize more than the amount of the debt, the creditor must hand over the balance for the benefit of the general creditors. Any estimated surplus from securities in the hands of fully secured creditors must be shown on the assets side of the Statement of Affairs. With mortgage securities, interest will be payable up to date of repayment; for a mortgage is not a first charge in respect of principal and a second charge in respect of interest, but a joint charge in respect of both. Where there are first, second, or third charges on the same property in respect of different debts, the surplus from the first debt will be carried forward to the second, and so on. It should be noted that where the security does not belong to the debtor himself the creditor proves for the full amount.

List "C," Creditors Partly Secured. This list contains the names of creditors who have a charge on some part of the debtor's property which, when realized, will pay off only a portion of the debt, the balance of which must, therefore, rank against the estate for dividend. On the Statement of Affairs, the value of the security is deducted from the amount of the debt and only the balance extended.

List "D," Liabilities of Debtor on Bills Discounted Other than his own Acceptances for Value. The debtor's own acceptances for value, i.e. his ordinary Bills Payable, will be included in List "A." On List "D" the debtor must furnish particulars of all unmatured bills of exchange to which he is a party either as drawer or endorser. The *acceptor* of a bill is, of course, the person primarily liable for payment, yet, if he makes default, the liability attaches to every endorser and also to the drawer. All unmatured Bills Receivable discounted with bankers or bill brokers, or endorsed on to creditors, must, therefore, be entered on this list; but only those that the acceptor is expected to dishonour will be shown as liabilities of the estate *ranking for dividend,* though the *total* will be shown in the "Gross Liabilities" column.

Accommodation Bills must also be shown on this List, but in a separate column. On these bills the debtor may be liable not only as drawer or endorser but also as accommodation *acceptor*. He is not liable to the drawer unless he has shared the proceeds, but he is liable to any third party who is a holder for value. Where the debtor is the acceptor, such bills should be extended as liabilities of the estate. Where, however, he is liable merely as drawer or

endorser, only those bills expected to be dishonoured should be shown as ranking against the estate for dividend.

List "E," Contingent or Other Liabilities.—On this list must be entered all liabilities as surety or guarantee for others, the balance due on shares not fully called up, liabilities in respect of any uncompleted contracts or a repairing lease, etc., loans for business purposes from the debtor's wife, loans carrying by way of interest a share of profits, etc.

Postponed or Deferred Creditors. Certain of the creditors entered on List "E" are called postponed or deferred creditors, because their claims are not considered unless and until all the other creditors have been paid in full. These are—

(1) Loans for business purposes from the debtor's wife where the debtor is a sole trader. If the husband is a partner in a firm, and the wife has lent money to the firm, she can claim as an ordinary creditor. This postponement was formerly enacted by the Married Woman's Property Act, 1882, section 3, but is now incorporated in the Bankruptcy Act, 1914, section 36 of which reads as follows —

> (1) Where a married woman has been adjudged bankrupt, her husband shall not be entitled to claim any dividend as a creditor in respect of any money or other estate lent or entrusted by him to his wife for the purposes of her trade or business until all claims of the other creditors of his wife for valuable consideration in money or money's worth have been satisfied.
>
> (2) Where the husband of a married woman has been adjudged bankrupt, any money or other estate of such woman lent or entrusted by her to her husband for the purpose of any trade or business carried on by him or otherwise, shall be treated as assets of his estate, and the wife shall not be entitled to claim any dividend as a creditor in respect of any such money or other estate until all claims of the other creditors of her husband for valuable consideration in money or money's worth have been satisfied.

(2) Loans for business purposes at a rate of interest varying with the profits. (See Partnership Accounts, page 304 (*d*).)

(3) Amount due to seller of the goodwill of a business in consideration of a share of the profits. (See Partnership Accounts, page 304 (*e*).)

The last two are governed by the Partnership Act, 1890, section 3, which enacts as follows —

> In the event of any person to whom money has been advanced by way of loan upon such a contract as is mentioned in the last foregoing section, or of any buyer of a goodwill in consideration of a share of the profits of the business, being adjudged a bankrupt, entering into an arrangement to pay his creditors less than twenty shillings in the pound, or dying in insolvent circumstances, the lender of the loan shall not be entitled to recover anything in respect of his loan, and the seller of the goodwill shall not be entitled to recover anything in respect of the share of profits contracted for, until the claims of the other creditors of the borrower, or buyer for valuable consideration in money or money's worth, have been satisfied.

Section 33 (9) of the Bankruptcy Act, 1914, expressly confirms this.

List "F," Creditors for Rent, etc., Recoverable by Distress. If the landlord distrains within three months before the date of the Receiving Order, he can be called upon to pay the preferential creditors out of the proceeds, becoming a preferential creditor himself for any loss he thereby sustains. [Section 33 (4) .] Should he distrain after the commencement of the bankruptcy, he is only entitled to *six months'* rent, the balance ranking for dividend. (Section 35.) Gas, water, and electric light corporations often have power of distraint in respect of their particular charges, and would, in such cases, also appear on this list.

List "G," Preferential Creditors for Rates, Taxes, and Wages. Section 33 (1) of the Bankruptcy Act, 1914, and other Acts, enact as follows—

In the distribution of the property of a bankrupt, there shall be paid in priority to all other debts—

(*a*) All parochial or other local rates due from the bankrupt at the date of the receiving order, and having become due and payable within twelve months next before that time, and all assessed taxes, land tax, property or income tax, assessed on the bankrupt up to the fifth day of April next before the date of the receiving order, and not exceeding in the whole one year's assessment;

(*b*) All wages or salary of any clerk or servant in respect of services rendered to the bankrupt during four months before the date of the receiving order, not exceeding fifty pounds;

(*c*) All wages of any labourer or workman, not exceeding twenty-five pounds, whether payable for time or for piece work, in respect of services rendered to the bankrupt during two months before the date of the receiving order: Provided that, where any labourer in husbandry has entered into a contract for the payment of a portion of his wages in a lump sum at the end of the year of hiring, the priority, under this section shall extend to the whole of such sum, or a part thereof, as the Court may decide to be due under the contract, proportionate to the time of service up to the date of the receiving order;

(*d*) All amounts due in respect of compensation under the Workmen's Compensation Act, 1925, the liability wherefor accrued before the date of the receiving order, subject nevertheless to the provisions of section five of that Act; and

(*e*) All contributions payable under the National Health Insurance Acts or the Widows', Orphans' and Old Age Contributory Pensions Act, or the Unemployment Insurance Acts, by the bankrupt, in respect of employed contributors or workmen, in an insured trade during twelve months before the date of the receiving order.

The foregoing debts shall rank equally between themselves and shall be paid in full, unless the property of the bankrupt is insufficient to meet them, in which case they shall abate in equal proportions between themselves.

Subject to the retention of such sums as may be necessary for the costs of administration or otherwise, the foregoing debts shall be discharged forthwith so far as the property of the debtor is sufficient to meet them.

By Section 34, the claim of an apprentice or articled clerk of a bankrupt for compensation for the unexpired portion of his premium is a preferential debt. By Section 130 (6) of the same Act, the funeral and testamentary expenses of a deceased insolvent are payable in full out of the debtor's estate in priority to all other debts. By the Friendly Societies Act, 1896, if the bankrupt is an

officer of a friendly society, that body has a preference over his other creditors if he has property or money of the society in his possession. This is confirmed by the Bankruptcy Act, Section 33 (9).

List "H," Property. On this list must be entered all the debtor's belongings in the shape of goods, money, real and personal property wherever situate. The printed list sets out what details are required. Only those assets should be included here which are absolutely unfettered. Where assets are pledged or mortgaged as security for debts or loans, the assets appear under such debt or loan as "Value of Security" on the liabilities side, and *not* on the assets side. The surrender value of the life insurance policy (if any) must be shown. Under "Other Property" are included reversionary interests, leases, stocks and shares, jewellery, and, in the case of a partnership bankruptcy, the surplus (if any) from the partners' separate estates.

Property Retained by Bankrupt. By Section 38, the property of the bankrupt divisible amongst his creditors does not comprise the following—

(1) Property held by the bankrupt on trust for any other person;

(2) The tools (if any) of his trade, and the necessary wearing apparel and bedding of himself, his wife and children, to a value inclusive of tools and apparel and bedding, not exceeding £20 in the whole.

List "I," Debts due to the Estate. As can be seen from the printed form, the debts have to be classified into good, doubtful, and bad. The doubtful debts have to be estimated, and the estimated value treated as an asset in the Statement of Affairs. The prescribed form contains a note respecting the treatment of contra accounts (if any).

List "J," Bills of Exchange, Promissory Notes, etc., Available as Assets. On this list must be furnished particulars of all bills of exchange, promissory notes, etc., held by the debtor. Such documents are, of course, handed over to the Official Receiver immediately the Receiving Order is made.

List "L," in Substitution for such of the Sheets Named A-J as will have to be Returned Blank. The object of this list is to avoid, in the case of small bankruptcies, having to file a number of blank forms. The debtor fills in the letter of each form, and writes the word "nil" opposite to the forms that he returns blank.

Front Sheet. The totals of the various lists have to be transferred or carried forward to the "Front Sheet" or summary. This requires a 2s. bankruptcy stamp. The assets are entered as per the lists "H," "I," and "J," "H" being copied in detail; then follows the surplus (if any) from securities in the hands of fully-secured creditors; and the addition of these four gives the total of

the *gross* assets. The liabilities are entered from the lists " A " to " E," and the proper amounts are extended into the column headed " Expected to Rank." The liabilities as per lists " F " and " G," and the sheriff's charges (if any) are then entered, but only in the inner column, added up, and the total deducted from the total of the gross assets on the opposite side. The balance gives the total of the *net* assets, and this total subtracted from the total of the liabilities ranking for dividend shows the estimated deficiency, which must agree with the deficiency shown in list " K."

Example 1. From the following particulars draw up the Statement of Affairs to be furnished to the creditors of A. O. Lovejoy—

28th September, 19..	£	s.	d.
Unsecured Creditors—			
Bills Payable	1,856	14	11
Household Debts	128	16	10
Trade Accounts	9,037	5	9
Fully-secured Creditors (holding security estimated to produce £9,000)	8,000	–	–
Liability on Bills Discounted, List D (£53 10s. 4d. of which is expected to rank)	557	14	8
Creditors for distrainable Rent	100	–	–
Preferential Creditors for Rates, Taxes, Wages, etc.	122	14	6
Cash in Hand	10	12	6
„ at Bank	60	5	10
Stock-in-Trade (estimated to produce £2,500)	4,060	18	2
Furniture and Fixtures (estimated to produce £600)	1,080	12	9
Household Furniture and Effects (estimated to realize £220)	450	10	6
Book Debts—			
Good	2,678	15	4
Doubtful, £526 11s. 6d. expected to produce half; Bad, £487 14s. 10d.			
Bills of Exchange, good	237	18	3

(See page 798.)

Example 2. From the following particulars prepare Statement of Affairs of Messrs. Rupert and Larkin as at 30th June—

Plant and Machinery, £30,000; expected to realize £25,000. Stock-in-Trade, £12,000; expected to produce £7,000. Patents, £5,000; estimated to realize £3,000. Furniture and Fixtures, £625 11s. 6d.; expected to produce £400. Cash in hand, £10 11s. 6d. Cash at Bank, £120 16s. 8d. Bills Receivable, £2,514 10s. 6d., all good. Bills Payable, £4,035 8s. 10d. Loans, £20,000, having a first charge on the Plant and Machinery. Liability for Damages awarded to injured workman under the Workmen's Compensation

STATEMENT OF AFFAIRS

OF A. O. LOVEJOY, 28TH SEPT., 19—

Gross Liabilities £	s.	d.	Liabilities	£	s.	d.	Expected to Rank £	s.	d.
11,022	17	6	Unsecured Creditors (A)				11,022	17	6
8,000	–	–	Fully Secured Creditors (B) . . .	8,000	–	–			
			Value of Security .	9,000	–	–			
			Surplus to contra .	1,000	–	–			
557	14	8	Liability on Bills Discounted (D) . .	557	14	8	53	10	4
100	–	–	Creditors for Rent (F) .	100	–	–			
122	14	6	Preferential Creditors for Rates, Taxes, Wages, etc. (G) . . .	122	14	6			
			Deducted in full per contra . . .	222	14	6			
£19,803	6	8					£11,076	7	10

Assets	£	s.	d.	Expected to Produce £	s.	d.
Property (H)—						
Cash in hand . . .				10	12	6
Cash at Bank . . .				60	5	10
Stock-in-trade . . .	4,060	18	2	2,500	–	–
Furniture and Fixtures .	1,080	12	9	600	–	–
Household Furniture and Effects	450	10	6	220	–	–
Total .				3,390	18	4
Book Debts (I)—						
Good				2,678	15	4
Doubtful	526	11	6			
Bad	487	14	10			
	1,014	6	4	263	5	9
Bills of Exchange (J) . .				237	18	3
Surplus from Securities in hands of Fully Secured Creditors as per contra . . .				1,000	–	–
Total Assets . .				7,570	17	8
Deduct Creditors for Rent and Preferential Creditors, as per contra . . .				222	14	6
Net Assets . .				7,348	3	2
Deficiency				3,728	4	8
				£11,076	7	10

STATEMENT OF AFFAIRS

OF RUPERT AND LARKIN, 30TH JUNE, 19—

Gross Liabilities £	s.	d.	Liabilities	£	s.	d.	Expected to Rank £	s.	d.	Assets	£	s.	d.	Expected to Produce £	s.	d.
29,752	3	10	Unsecured Creditors (A)[1]				29,752	3	10	Property (H)—						
20,000	-	-	Fully Secured Creditors (B) . . .	20,000	-	-				Cash in hand . . .				10	11	6
			Value of Security .	25,000	-	-				Cash at Bank . . .				120	16	8
			Surplus to List "C"	5,000	-	-				Stock-in-Trade . . .	12,000	-	-	7,000	-	-
8,000	-	-	Partly Secured Creditors (C) . . .	8,000	-	-				Furniture and Fixtures .	625	11	6	400	-	-
			Value of Security .	5,000	-	-	3,000	-	-	Patents	5,000	-	-	3,000	-	-
1,856	11	4	Liability on Bills Discounted (D) . .	1,856	11	4	104	18	8	Surplus from private estate of L. Larkin . . .				60	-	-
310	-	-	Creditors for Rent (F) .	310	-	-				*Total* . .				10,591	8	2
265	16	6	Preferential Creditors[2] for Rates, Taxes, Wages, etc. (G) . . .	265	16	6				Book Debts (I)— Good	7,068	10	6	6,715	2	-
				575	16	6				Doubtful	2,020	16	8			
										Bad	1,727	7	1			
											3,748	3	9	305	4	2
										Bills of Exchange (J)— .	2,514	10	6	2,514	10	6
										Total Assets . .				20,326	4	10
										Deduct Creditors for Rent, Rates, Taxes, Wages, etc., as per contra				575	16	6
										Net Assets . .				19,750	8	4
										Deficiency				13,106	14	2
£60,184	11	8					£32,857	2	6					£32,857	2	6

1 Bills Payable, £4,035 8s. 10d.; Trade Accounts, £25,406 15s.; Rent £310;
2 Damages to Workman, £100; Taxes, £85; Wages and Salaries, £80 16s. 6d.
Estate shows (£19,750 ÷ £32,857) 12s. in the £, subject to expenses of winding up.

Act, 1925, £100, not covered by insurance. Creditors, £33,406 15s., £8,000 of which has a second charge on the Plant and Machinery. Rent owing 1 year, £620. Rates and Taxes, 1 year, £85. Preferential Wages and Salaries, £80 16s. 6d. Book Debts, £10,816 14s. 3d.; good, £7,068 10s. 6d., subject to 5 per cent cash discount; doubtful, £2,020 16s. 8d., expected to produce 25 per cent; and the remainder bad. Liabilities on Bills Discounted, £1,856 11s. 4d., of which £104 18s. 8d. is expected to rank. L. Larkin's private estate shows an expected surplus of £60, and R. Rupert's a deficiency of £146.

How much in the £ does the estate show? (See page 799.)

Difference between a Statement of Affairs and a Balance Sheet. This is a favourite examination question, and the student should, therefore, carefully note the four principal differences—

(1) A Balance Sheet is prepared from the figures in the books and shows, on the assets side, the whole of the assets including such items as are being carried forward to be written off in subsequent years; a Statement of Affairs shows only those "free" assets that are available for the general creditors, assets mortgaged or pledged as security for debts being shown underneath the debts themselves.

(2) A Balance Sheet shows the book value of the assets; a Statement of Affairs shows their estimated realizable value as well.

(3) In a Balance Sheet, the preferential creditors are included in the total of the liabilities; in a Statement of Affairs, they are deducted from the assets.

(4) A Balance Sheet shows a trader's capital, profit or loss, and drawings; a Statement of Affairs excludes all these items.

DEFICIENCY ACCOUNT

Object and Contents. The object of this form, List "K," is to explain the deficiency as shown in the Statement of Affairs, i.e. to show by means of figures how it has been brought about. Starting from a given date—at least twelve months before the date of the Receiving Order—the initial capital (if any) should be shown on the one side, and all subsequent trading profits and any other sources of income. On the other side should be detailed trading losses, losses by bad debts, and all expenses or losses other than trade expenses, viz. household expenses of self, wife, and children; the difference between premiums paid on life policies and the surrender value of such policies; medical attendance; gambling or stock exchange losses; damages and costs in actions at law; loss through dishonoured bills or accommodation bills expected to rank; and the estimated losses on realization. The balance of this account must agree with the balance shown by the Statement of Affairs.

Adjustment of Profits and Losses. In exercises and examination work, the profits and losses are often given *after* charging interest

on capital. In such cases, the profits and losses must be adjusted in order to eliminate this interest from the Deficiency Account. Thus, the profits must be *increased* and the losses *decreased* by the amount of such interest; and, in some cases, a small loss may be converted into a profit by means of this adjustment. When partners' salaries have been credited to capital, i.e. not drawn out in cash, the profits and losses must be adjusted in a similar manner, in order to avoid showing the salaries in the Deficiency Account as having increased the capital. When the partners' salaries have been drawn out in cash, the capital account will not have been affected, and, consequently, the profits and losses will not require adjustment.

Example 1 (a). Referring to Example 1, draw up from that and the following particulars the Deficiency Account of A. O. Lovejoy—

Capital at commencement, £5,000. Trading Results: 1st year, profit, £1,678 4s. 2d.; 2nd year, loss, £869 8s. 10d.; 3rd year, loss, £660 7s. 8d. Damages and costs in unsuccessful action at law, £4,000. Drawings, 3 years @ £600 per annum.

DEFICIENCY ACCOUNT

28th Sept., 19—

	£	s.	d.					£	s.	d.
Capital at commencement	5,000	–	–	Trading Losses—						
Trading Profit, 1st year	1,678	4	2	2nd year	£869	8	10			
Deficiency as per Statement of Affairs	3,728	4	8	3rd year	660	7	8	1,529	16	6
				Drawings, 3 yrs. at £600 p.a.				1,800	–	–
				Bad Debts				751	–	7
				Damages and Costs in unsuccessful action at law				4,000	–	–
				Estimated Losses on Realization—						
				Stock	£1,560	18	2			
				Furniture	480	12	9			
				Household Furniture	230	10	6	2,272	1	5
				Liability on Bills discounted, expected to rank				53	10	4
£	10,406	8	10	£				10,406	8	10

Example 2 (a). Referring to Example 2, draw up from that and the following particulars the Deficiency Account of Rupert and Larkin—

Capital at commencement, £10,000. Trading Results: 1st year, profit, £1,116 10s. 8d.; 2nd year, loss, £1,887 6s. 4d.; 3rd year, profit, £587 4s. 3d.; 4th year, profit, £316 11s. 2d.; 5th year, loss, £2,872 15s. 8d. Partners' Drawings: Rupert, £900 per annum; Larkin, £500 per annum. The above profits and losses are after charging interest on capital @ £500 per annum.

DEFICIENCY ACCOUNT

30th June, 19..

	£	s.	d.		£	s.	d.
Capital at commencement .	10,000	-	-	Losses by Trading—			
Profits by Trading—				2nd year . £1,387 6 4			
1st year . £1,616 10 8				5th year . 2,372 15 8			
3rd year . 1,087 4 3					3,760	2	-
4th year . 816 11 2				Drawings, 5 years at £1,400 p.a. .	7,000	-	-
	3,520	6	1	Bad Debts	3,242	19	7
Surplus from L. Larkin's private estate	60	-	-	Estimated Losses on Realization—			
				Stock . . £5,000 - -			
Deficiency as per Statement of Affairs	13,106	14	2	Fixtures . . 225 11 6			
				Plant & Machinery 5,000 - -			
				Patents . . 2,000 - -			
				Discount on Drs. 353 8 6			
					12,579	-	-
				Liability on Bills discounted expected to rank . . .	104	18	8
£	26,687	-	3	£	26,687	-	3

TRUSTEE'S ACCOUNTS

Trustee in Bankruptcy. This is a person elected by the creditors of a debtor who has been adjudged a bankrupt, to take over his property. The appointment is subject to the approval of the Board of Trade. The trustee's duties are to realize the debtor's estate, and distribute the proceeds, after paying the preferential claims, among the unsecured creditors.

Trustee's Cash Book. The trustee must keep a Cash Book, the prescribed form of which is as shown on page 803, also a Trading Account if he carries on business.

Trustee's Account of Receipts and Payments. The trustee must also render to the Board of Trade an account of his receipts and payments, the prescribed form of which is as shown on page 808. (Section 92.) This is audited by the Board of Trade, and an audited copy is kept for the inspection of the creditors or of the bankrupt.

Record Book. This is a book that must be kept by the trustee in bankruptcy. It contains records of the minutes of all meetings, the resolutions passed, and particulars, in order of date, as to how the estate has been administered. (Section 86.)

Bankruptcy Estates Account. This is an account kept by the Board of Trade with the Bank of England, and every trustee in bankruptcy, or under any composition or scheme of arrangement, must pay all moneys received by him into this account. He may, however, with the sanction of the Board of Trade, if the balance of cash is small, and if such procedure is to the obvious advantage of the creditors, make his payments into and out of some local bank. The account must be opened in the name of the debtor's estate, and any interest received thereon will form part of the general assets of the estate. A trustee must not pay any sums received by him as trustee into his own private banking account. If at any

TRUSTEE'S CASH BOOK

Dr. **Receipts** **Payments**

Date	Particulars	Total	Drawn from Bank	Debts Collected	Property Realized	Receipts from Securities held by Creditors	Other Receipts	Date	Particulars	Voucher Nos. (in red)	Total

Payments *Cr.*

Paid into Bank	Costs of Realization.								Allowance to Debtor	Preferential Creditors (Section 33) and Rent	Payments to redeem Securities	Dividends Paid	Other Payments
	Board of Trade and Court Fees	Law Costs of Petition (including £5 stamp)	Law Costs after Receiving Order	Commission on Realization and Distribution		Charges of Auctioneer, Accountant, Shorthand Writer, &c., as taxed	Notices in *Gazette* and Local Paper	Incidental Expenses, including Possession					
				Board of Trade	Trustee								

BANKRUPTCY ACT, 1914.

In the Court of holden at No. of

IN BANKRUPTCY. *Re*

Dr. Statement, showing postion of Estate at date of application for Release of Trustee *Cr.*

	Estimated to produce per Debtor's Statement	Receipts
To total receipts from date of Receiving Order, viz.—		
Cash at Bankers		
Deposit on Petition		
(*a*) Stock-in-Trade		
(*b*) Machinery, Fixtures, etc.		
(*c*) Farming Stock		
(*d*) Furniture		
(*e*) Other Property		
Book Debts		
Bills of Exchange		
Surplus from Securities		
Other Receipts—		
Total		
Less—		
Deposit returned to Petitioner		
Payments to redeem Securities		
Costs of Execution		
Payments per Trading Account		
	£	
Net Realizations	£	

		Payments
By Board of Trade and Court Fees (including Stamp of £5 on petition)		
Law Costs of Petition		
Other Law Costs		
Trustees' Remuneration as fixed by the Committee of Inspection, viz.—		
per cent on £....assets realized ..		
per cent on £....assets distributed in dividend		
Special Manager's Charges		
Person appointed to assist Debtor under Sec. 74 of the B. A., 1914		
Auctioneer's Charges as Taxed		
Other Taxed Costs		
Costs of Possession		
Costs of Notices in *Gazette* and Local Papers ..		
Incidental Outlay		
Total Cost of Realization		£
Allowance to Debtor		
Creditors, viz.		
Preferential		
Unsecured: Final Dividend now declared of in the £ on ..		
The Debtor's estimate of amount expected to rank for dividend was	£	
Balance		
		£

time he retains for more than ten days a sum exceeding £50, he is liable for interest thereon at the rate of 20 per cent per annum, and also for any expenses occasioned by his default, and may be removed from office. (Sec. 89.)

Power to Disclaim Onerous Property. By section 54—

Where any part of the property of the bankrupt consists of land of any tenure burdened with onerous covenants, of shares or stock in companies, of unprofitable contracts, or of any other property that is unsaleable, or not readily saleable, by reason of its binding the possessor thereof to the performance of any onerous act, or to the payment of any sum of money, the trustee, notwithstanding that he has endeavoured to sell or has taken possession of the property, or exercised any act of ownership in relation thereto, but subject to the provisions of this section, may, by writing signed by him, at any time within twelve months after the first appointment of a trustee or such extended period as may be allowed by the Court, disclaim the property.

A trustee is not, however, usually entitled to disclaim a lease except by consent of the Court.

Powers of Trustee to deal with Property. By section 55 of the Act, it is enacted—

Subject to the provisions of this Act, the trustee may do all or any of the following things—

(1) Sell all or any part of the property of the bankrupt (including the goodwill of the business, if any, and the book debts due or growing due to the bankrupt), by public auction or private contract, with power to transfer the whole thereof to any person or company, or to sell the same in parcels.

(2) Give receipts for any money received by him, which receipts shall effectually discharge the person paying the money from all responsibility in respect of the application thereof.

(3) Prove, rank, claim and draw a dividend in respect of any debt due to the bankrupt.

(4) Exercise any powers, the capacity to exercise which is vested in the trustee under this Act, and execute any powers of attorney, deeds and other instruments, for the purpose of carrying into effect the provisions of this Act.

(5) Deal with any property to which the bankrupt is beneficially entitled as tenant in tail in the same manner as the bankrupt might have dealt with it, and sections fifty-six to seventy-three of the Fines and Recoveries Act, 1883, shall extend and apply to proceedings under this Act, as if those sections were herein re-enacted and in terms made applicable to those proceedings.

Powers Exercisable by Trustee with Permission of the Committee of Inspection. By section 56, the trustee may with the permission of the committee of inspection do all or any of the following things—

(1) Carry on the business of the bankrupt, so far as may be necessary for the beneficial winding up of the same;

(2) Bring, institute, or defend any action or other legal proceedings relating to the property of the bankrupt;

(3) Employ a solicitor or other agent to take any proceedings or do any business which may be sanctioned by the committee of inspection;

(4) Accept as the consideration for the sale of any property of the bankrupt a sum of money payable at a future time, subject to such stipulations as to security and otherwise as the committee think fit;

(5) Mortgage or pledge any part of the property of the bankrupt for the purpose of raising money for the payment of his debts;

(6) Refer any dispute to arbitration, compromise any debts, claims, and liabilities, whether present or future, certain or contingent, liquidated or unliquidated, subsisting or supposed to subsist between the bankrupt and any person who may have incurred any liability to the bankrupt, on the receipt of such sums, payable at such times, and generally on such terms as may be agreed on;

(7) Make such compromise or other arrangement as may be thought expedient with creditors, or persons claiming to be creditors, in respect of any debts provable under the bankruptcy;

(8) Make such compromise or other arrangement as may be thought expedient with respect to any claim arising out of or incidental to the property of the bankrupt, made or capable of being made on the trustee by any person or by the trustee on any person;

(9) Divide in its existing form amongst the creditors, according to its estimated value, any property which from its peculiar nature or other special circumstances cannot be readily or advantageously sold.

With the permission of the committee of inspection, he may also appoint the bankrupt to superintend the management of the property, or to carry on the business, and may also make him an allowance for the support of himself and family, or in consideration of his services. (Sections 57 and 58.)

Remuneration of Trustee. By section 82—

Where the creditors appoint any person to be trustee of a debtor's estate, his remuneration (if any) shall be fixed by an ordinary resolution of the creditors, or, if the creditors so resolve, by the committee of inspection, and shall be in the nature of a commission or percentage, of which one part shall be payable on the amount realized by the trustee, after deducting any sums paid to secured creditors out of the proceeds of their securities, and the other part on the amount distributed in dividend.

Distribution of Dividends. Section 62 enacts as follows—

(1) Subject to the retention of such sums as may be necessary for the costs of administration, or otherwise, the trustee shall, with all convenient speed, declare and distribute dividends amongst the creditors who have proved their debts.

(2) The first dividend, if any, shall be declared and distributed within four months after the conclusion of the first meeting of creditors, unless the trustee satisfies the committee of inspection that there is sufficient reason for postponing the declaration to a later date.

(3) Subsequent dividends shall, in the absence of sufficient reason to the contrary, be declared and distributed at intervals of not more than six months.

Rights of Creditor who has not Proved his Debt. By section 65—

Any creditor who has not proved his debt before the declaration of any

dividend or dividends shall be entitled to be paid out of any money for the time being in the hands of the trustee any dividend or dividends he may have failed to receive before that money is applied to the payment of any future dividend or dividends, but he shall not be entitled to disturb the distribution of any dividend declared before his debt was proved by reason that he has not participated therein.

Interest on Debts. Section 66 provides as follows—

Where a debt has been proved, and the debt includes interest, or any pecuniary consideration in lieu of interest, such interest or consideration shall, for the purposes of dividend, be calculated at a rate not exceeding 5 per cent per annum, without prejudice to the right of a creditor to receive out of the estate any higher rate of interest to which he may be entitled after all the debts proved in the estate have been paid in full.

Bankrupt's Right to a Surplus. This is provided for by section 69—

The bankrupt shall be entitled to any surplus remaining after payment in full of his creditors, with interest, as by this Act provided, and of the costs, charges, and expenses of the proceedings under the bankruptcy petition.

Unclaimed Funds or Dividends. By section 153 (1)—

Where the trustee, under any bankruptcy composition or scheme, pursuant to this Act or any enactment repealed by this Act, has under his control any unclaimed dividend which has remained unclaimed for more than six months, or where, after making a final dividend, he has in his hands or under his control any unclaimed or undistributed money arising from the property of the debtor, he shall forthwith pay it to the Bankruptcy Estates Account at the Bank of England. The Board of Trade shall furnish him with a certificate of receipt of the money so paid, which shall be an effectual discharge to him in respect thereof.

Any person claiming to be entitled to any moneys in the Bankruptcy Estates Account may apply to the Board of Trade for the same; and if the Board of Trade is satisfied as to the validity of his claim, they order payment to be made to him.

Example. From the following particulars make out the trustee's *Account of Receipts and Payments* to date of first and final dividend.

RECEIPTS

Cash deposited with solicitor, £10; Cash in hand, £15 11s. 3d.; Cash at Bank, £104 2s. 9d.; Stock, £8,750 10s. 5d.; Furniture and Fixtures, £320 4s. 6d.; Patents, £2,500; Book Debts, £7,426 15s. 3d.; Bills of Exchange, £2,420 10s. 6d.

PAYMENTS

Board of Trade and Court Fees, £153 14s. 6d.; Law Costs of Petition, £45 11s. 2d.; Taxed Costs of Accountant and Shorthand Writer, £256 4s. 8d.; Guarantee Premium, £13 13s. (authorized by the Committee to be paid out of the assets); Cost of Notices in *Gazette* and local papers, £5 16s. 3d.; Incidental Outlay Postages: Stationery, etc., £43 9s. 7d.; Allowance to

Debtor, £100; Preferential Creditors for Rent, £300, and Rates, Taxes, and Wages, £240; Liquidator's Remuneration (as fixed by the Committee of Inspection), 3% on £18,997 10s. 2d. Assets realized, and 2% on Dividend distributed to Unsecured Creditors, whose debts amounted to £38,861 9s. 6d.

TRUSTEE'S ACCOUNT OF RECEIPTS AND PAYMENTS

Dr. TO DATE OF FIRST AND FINAL DIVIDEND *Cr.*

Receipts	Amount £	s.	d.	Payments	Amount £	s.	d.
To Cash deposited with Solicitor	10	–	–	By Board of Trade and Court Fees	153	14	6
,, Cash in hand	15	11	3	,, Law Costs of Petition	45	11	2
,, Cash at Bank	104	2	9	,, Trustee's Remuneration (as fixed by Committee of Inspection)—			
,, Stock	8,750	10	5	3% on £18,997 10s. 2d. assets realized	569	18	6
,, Furniture and Fixtures	320	4	6	2% on £19,430 14s. 9d. assets distributed[1]	388	12	3
,, Patents	2,500	–	–	,, Taxed Costs of Accountant and Shorthand Writer	256	4	8
,, Book Debts	7,426	15	3	,, Guarantee Premium	13	13	–
,, Bills of Exchange	2,420	10	6	,, Costs of Notices in *Gazette* and local newspapers	5	16	3
				,, Incidental Outlay— ,, Postages, Stationery, etc.	43	9	7
				Total Costs and Charges	1,476	19	11
				,, Allowance to Debtor	100	–	–
				,, Preferential Creditors— Rent	300	–	–
				Rates, Taxes, and Wages	240	–	–
				,, First and Final Dividend of 10s. in the £ on £38,861 9s. 6d. to Unsecured Creditors	19,430	14	9
	£21,547	14	8		£21,547	14	8

[1] Ascertained by calculating $\frac{2}{102}$ of £19,819 7s., the *gross* amount distributable between Unsecured Creditors and Trustee.

QUESTIONS ON CHAPTER XX

A

1. What are the laws that govern bankruptcy? What is the object of bankruptcy laws?
2. Where must bankruptcy proceedings be taken?
3. What persons and bodies may be made bankrupt? Can a joint stock company be made bankrupt?
4. What is an act of bankruptcy? Name some of the principal ones.
5. Explain the terms "bankruptcy notice" and "petition." Who presents the petition, the debtor or the creditor?
6. Explain the terms "receiving order," "fraudulent conveyance," "statement of affairs," "composition," "deed of arrangement."
7. What three courses are open to a meeting of creditors?

8. What is meant by the terms "committee of inspection," "bankrupt's public examination?"
9. What is meant by the "discharge" of a bankrupt? What are the conditions governing it?
10. From what debts does a bankrupt's discharge (*a*) release him, (*b*) not release him?

B.

1. Explain the term "undischarged bankrupt." What disabilities attach to such a person?
2. Can a bankruptcy be afterwards annulled? How are joint and separate estates of partners to be treated?
3. How are small bankruptcies dealt with? What is an "administration order?"
4. Give short particulars of the creditors who have to be entered on Lists A, B, and C respectively.
5. Give short particulars of the creditors who have to be entered on Lists D, E, and F respectively.
6. What is meant by "postponed" or "deferred" creditors? Give examples.
7. What are "preferential" creditors, and on what list are their claims entered?
8. What property is entered on List H? What property is retained by the bankrupt?
9. What debts are entered on Lists I and J, and how have they to be classified?
10. What is the purpose of List L, and "Front Sheet?" What is the procedure with the latter?

C.

1. Explain the difference between a Statement of Affairs and a Balance Sheet.
2. What is the object of a Deficiency Account? What are its usual contents?
3. What adjustments of profits and losses are sometimes required when preparing a Deficiency Account?
4. What is a trustee-in-bankruptcy? How is he appointed?
5. What books and accounts must a trustee keep? What is a Record Book?
6. Explain the Bankruptcy Estates Account. Can a trustee pay his receipts into any bank he prefers? What penalties attach to a trustee with regard to the keeping of a large cash balance?
7. What power has a trustee with regard to onerous property? Does this power apply to a lease? Name some of the powers of a trustee with regard to property generally.
8. State briefly some of the powers a trustee may exercise with the permission of the committee of inspection.
9. How is the trustee remunerated? How are dividends to be distributed by him? What are the rights of a creditor who has not proved his debt?
10. What provision is made by the Bankruptcy Act, 1914, with respect to the following?—

(*a*) Interest on debts; (*b*) surplus; (*c*) unclaimed dividends or funds.

EXERCISE XX

1. From the following particulars make out the Statement of Affairs of Thos. F. Sellers for submission to his creditors—

Good Book Debts	£3,872
Doubtful "	1,500
Bad "	2,500
Unsecured Creditors	7,278
Bills Payable	1,200
Stock	1,200
Fixtures	300
Cash at Bank	150
Preferential Creditors	267

Partially-secured Creditors	£872	
Estimated Value of Securities	550	
	——	322
Creditors fully secured (estimated value of Securities, £2,500)		2,200

Make out his Statement of Affairs, assuming that the Stock, Doubtful Debts, and Fixtures will realize 50 per cent of the value mentioned above. (*National Union of Teachers.*)

2. Richard Humphrey's Balance Sheet on 31st January was as follows: *Assets*: Sundry Debtors, £106 2s. 3d.; Stock at cost, £395 11s. 9d.; Cash in hand, £1 2s. 11d.; Shop Fittings at cost, £173 12s. 6d. *Liabilities*: Bank Overdraft, £241 19s. 3d.; Trade Creditors, £378 14s.; John Joker, for Rent, £15; Capital, £40 16s. 2d. Being pressed by Creditors, he filed his petition in bankruptcy. On going through the list of Debtors, he found that of the amount entered in the books, £60 11s. 3d. was irrecoverable, and that accounts amounting to £10 11s. 6d. were disputed. He estimated that the Stock, if sold by auction, should realize £315, and that the Shop Fittings would realize £45. His Household Furniture was estimated at £280. He owed to sundry tradesmen £55 4s. 6d., and a year's rent for his dwelling-house at £35 per annum. He also owed £2 1s. 6d. Income Tax, and £8 15s. for Rates. The shop assistant had not received her wages for the previous two weeks at 17s. 6d. a week. Prepare Statement of Affairs. *Lancashire and Cheshire Union.*

3. Prepare a Statement of Affairs from the following particulars of Jonas Johnson, Manufacturer, Burnley, on the 18th March.

	£
Unsecured Creditors	22,100
Fully-secured Creditors	9,870
Partly-secured Creditors	4,764
Securities held by Creditors, fully secured, valued at	12,107
Securities held by Creditors, partly secured, valued at	2,321
Creditors for Rents, Rates, Taxes, and Wages (of which £600 only is preferential)	850
Plant: Book value £12,600, estimated to produce only one-third of this sum.	
Office Furniture, estimated to realize	50
Cash in hand	5
Book Debts—	
Good, expected to realize	3,000
Doubtful, £500, expected to realize	200
Bad, £300, expected to realize	*nil*
Life Policy on the life of Jonas Johnson, in the Atlas Assurance Co., paid 20 annual premiums of £24 each. Estimated surrender value is $\frac{3}{5}$ of the amount paid in premiums.	

How much in the £ does the estate show?

(*Lancashire and Cheshire Union.*)

4. From the following particulars prepare a Statement of Affairs and Deficiency Account as on 31st December, for the information of the Creditors of Black & White, who are insolvent: Cash in hand, £200. Book Debts: Good, £2,000; Doubtful, £300 (estimated to produce, £100); Bad, £500. Stock-in-Trade valued at £1,900. Freehold Property cost £3,000, estimated to produce £2,500; this property is assigned to creditors for £2,300. Shares held £150: these are given as security for a debt of £400. Creditors: Unsecured on open account, £5,000; on Bills Payable, £1,000; partially secured by Shares, £400; fully secured on Freehold Property, £2,300; preferable Claims for Taxes, Wages, and Salaries, £100. Black's drawings, £2,000; White's drawings, £2,850. The business commenced on 1st January, three years ago. Black put into it £2,500 and White £2,900. The first year showed a profit of £3,000, but the next two years showed a loss of £4,300. No provision was made for Bad Debts. (*National Union of Teachers.*)

5. Thomas Jones having been adjudicated bankrupt, the following Balances appear in his books—

Cash in hand, £20; Overdrawn at Bank, £150; Stock-in-Trade (cost £800) estimated at £500; Machinery (cost £500) estimated at £400; Trade Fixtures (cost £300) estimated at £120; Book Debts, Good £500 (estimated to produce £500); Doubtful, £250 (estimated to produce £100); Bad, £250; Unsecured Creditors, £2,500; Creditors fully secured, £500; estimated Value of Security, £600; Liabilities on Bills, £400; Creditors for Half-year's Rent, £50; Rates and Taxes (12 mos.), £10; Domestic Servants' Wages (3 mos.), £30.

Arrange the above in the form of a Statement of Affairs for presentation to the first meeting of Creditors. (*National Union of Teachers.*)

6. Prepare Statement of Affairs of Winter & Co., Shippers, who filed their Petition on 29th September.

Books of Partnership showed that there was owing £9,610; included in this are Creditors for £2,560, who hold stock valued at £3,000, and also Creditors for £1,000 who hold stock valued at £565. The Assets consist of Cash in Office, £10; at Bank, £400. Stock-in-Trade, £2,000 (estimated to produce £1,200). Land and Buildings, £1,500 (estimated to realize £1,000). Furniture, etc., £500 (estimated to produce, £250). Preferential Creditors for Wages and Taxes, £90. Good Book Debts, £500. Doubtful Debts, £250 (estimated to realize £100). (*National Union of Teachers.*)

7. Samuel Hobson, in business in the city, finds himself insolvent. From the various books and papers in his possession the following particulars as to his financial position are forthcoming—

Sundry Debtors: Good, £1,280; Doubtful, £2,800 (estimated to produce £1,000); Bad, £700	£4,780
Sundry Freehold Houses, etc. (estimated to produce £2,000)	3,300
Shares: 1,000 Ordinary Shares in the Cable Telegraph Co. valued at par	1,000
Mining and Railway Shares (£2,500 are held as security by partly-secured creditors and the balance by fully-secured creditors)	9,450
Loss through the unsuccessful defence of an action at law	5,420
Business Expenses	3,200
Creditors: Unsecured	16,740
,, Partly secured	5,420
,, Fully secured	3,110
Preferential Claims for Salaries and Rent	500
Private Drawings	1,200

Samuel Hobson: Capital Account	£3,800
Cash at Bank	420
Bills Receivable: Good	800

Prepare the Statement of Affairs for submission to his creditors and a Deficiency Account in the ordinary form. (*London Chamber of Commerce.*)

8. Charles Jackson guarantees a loan of £200 for a friend. Hearing that this friend was in financial difficulties and only able to pay about 10s. in the £ if made bankrupt, and being himself pressed by creditors, he decided to file his petition.

He had a works which had cost recently £1,000, but on this there was a mortgage of £800; Cash at the Bank, £140 2s. 3d.; Cash on hand, £11 10s.; out of which he gave his solicitor £10 on account of costs. His Stock-in-Trade had cost £398 4s. 3d., but he did not think that on forced realization it would bring in more than £275; his Machinery, etc., he thought, ought to sell for £200, and the Fittings, etc., for £50; after considering his Book Debts carefully, he thought that £118 10s. was good, £296 11s. bad, and £76 4s. 3d. doubtful, perhaps worth £30; he had also a Bill of Exchange for £87 4s.

He had unsecured Creditors for £753 4s. 11d.; he had accepted two accommodation bills of £100, and on reference to his Bill Book found that he had two months before endorsed over William Fletcher's 3 months' bill for £167 5s. to a creditor.

He owed £10 for House Rent, £20 for Income Tax, £29 18s. 3d. for Rates, and £26 16s. 5d. for Wages.

He had also Household Furniture worth £175, and a gold watch and chain worth £15.

Make out in proper form, Charles Jackson's Statement of Affairs. (*Lancashire and Cheshire Union.*)

9. Fred Jackson, on the 31st March, unable to meet his engagements, requires a Statement of Affairs for submission to his creditors. Prepare the same from the following—

	Book Value £	*Estimated to Realize* £
Leasehold Premises held for 99 years, subject to a payment of Ground Rent, £100 per year . . .	10,000	9,000
Book Debts: Good	6,650	6,000
„ „ Doubtful	500	250
„ „ Bad	750	—
Fixed Plant and Machinery	4,000	3,000
Stock-in-Trade	2,000	1,400

Cash in hand, £10. Life Insurance Policy for £2,500 at death, subject to a premium of £50 a year due and paid 28th February last, and held by Insurance Co. for a loan of £200; Surrender Value, £500. Household Furniture and Effects, £360. Private and Household Debts, £290. 600 Shares in Cooper & Co., Ltd., of £1 each: 10s. paid up, now quoted at 12s. 6d. per share. Loan of £5,000, secured by a first mortgage on the leasehold at 4½ per cent, the Interest of same being paid to the 31st March. Unsecured Creditors, £15,000. Bankers for Overdraft and Interest £5,000, holding as security a second mortgage on leasehold of £4,000. Loan from E. Taylor £400 at 5 per cent per annum, interest being paid to 31st March, who holds as security second charge on Life Insurance Policy. Ground Rent of Leasehold accrued since 31st December last.

With the following additional information, prepare a Deficiency Account—

On the 1st April, three years ago, he had a Capital of £12,000, in addition

to Household Furniture. His Private Drawings, as shown in the Cash Book, were as follows—

	£
For the first year ended 31st March	4,905
„ second „ „ „ „	4,000
„ third „ „ „ „	5,000

He made a profit in his business in the first year of £5,000, and, in the subsequent years, losses of £3,000 and £935 respectively. (*Lancashire and Cheshire Union.*)

10. A Liverpool merchant, trading to the West Coast of Africa, finding himself, on 1st July, unable to meet his engagements, asks you to make up a Statement of Affairs for submission to his creditors.

You find his books disclose—

	£
Unsecured Creditors	8,830
Fully-secured Creditors	2,352
Who hold security fo the cost value of £2,630.	
Partly-secured Creditors	37,697
Who hold securities of the cost value of £18,098.	
Preferential Creditors	822
Bills Payable	20,066
„ Receivable (discounted) (expected to rank, £1,000)	5,833
Book Debts in England (Good)	1,341
„ „ „ (Doubtful) £170, estimated to produce	85
„ „ „ (Bad) £34, of no value	
Stock in Liverpool at cost, £1,306, estimated at	1,200
„ and Book Debts, *less* Sundry Liabilities, at four Stations on the Coast	36,584
Of which it is estimated there will be a loss on realization of Stock of £5,638, and of Book Debts of £7,586.	
Four Station Buildings, Plant, Steamers, and Carrying Craft, £40,000, expected to realize	20,000
Office Furniture, £289, estimated to realize	200
Cash in hand	4
„ at Bankers	80

Show his position, and make out his Deficiency Account from 1st July, five years ago, when he had a Capital of £42,000. Profits appear from the books to have been made in first and second years of £5,000 and £4,000 respectively, and losses in the three subsequent years of £2,100, £2,600 and £3,031 respectively, after allowing £2,000 a year for Interest upon Capital, and his withdrawals having been at the rate of £4,500 a year. (*Chartered Accountants.*)

11. Prepare Statement of Affairs on 9th July of "The Sandy Freehold Land Society." Unsecured Creditors, £200,000; Creditors fully secured, £6,000; Property held by secured Creditors, £12,000; Creditors for Rates, Taxes, and Wages (preferential), £300; Bills of Exchange (good), £22; Book Debts £27,000; (Good, £1,000; Doubtful, £25,000 produce, £2,000, Remainder bad,); Property, £56,000; Loans on Mortgage (produce £60,000), £170,000; Office Furniture, etc., £100; Cash at Bankers, £900; at Office, £100. (*Chartered Accountants.*)

12. Prepare Statement of Affairs and Deficiency Account as on the 10th October, of William Corby.

Cash in hand, £85; Book Debts, £3,472 (estimated to produce £2,869); unfinished Contract in hand (estimated to produce £3,000 over and above the cost of completing it); Plant, Tools, etc., cost £1,880 (estimated to realize £500); Office Furniture (estimated to realize £25); Stock-in-Trade,

valued at £1,900; Investments valued £6,200, of which are deposited with bankers as security for loan £5,460; Life Policies for £2,000, of the estimated surrender value of £1,470, subject to advances made by the Insurance Co., amounting to £1,420; Unsecured Creditors on Trade Account, £4,140; Unsecured Creditors for cash advanced, £5,308; W. Smith for two months' Wages due to him as clerk, £30; A. Compton, six months' Salary due to him at £15 per month; Rent recoverable by distress, £45; Bankers for Loans partly secured, £10,134 (estimated value of securities held by bankers, £7,460, viz.: Investments, £5,460, and Lease, £2,000); Capital Account on 1st January, as shown by the books, £189; Loss on Trading from 1st January to 10th October, £374; Loss on Sale of Investments made on 13th June, £200; Drawings, £750. (*Chartered Accountants.*)

13. Prepare Statement of Affairs and Deficiency Account of Messrs. Jones & Co., on 31st December.

The firm commenced business on 1st January, five years ago, with a Capital of £25,000. The Trading, after charging Interest upon Capital at £1,000 a year, resulted in a Profit for first year of £602, and in Losses in the subsequent respective years of £370, £450, £500, and £700. The Drawings of the Partners were at the rate of £900 a year; and £1,500 had been expended during the five years upon Patents and Experiments, and at the date of Bankruptcy stood in the books at that sum. Unsecured Creditors, £15,050; Creditors partly secured, £19,080 (holding security, as stated by the books, of the value of £18,100, but which is only estimated to realize £6,000); Creditors for Wages, Taxes, etc., £500; Bills Receivable discounted, £2,060 (upon which it is estimated there will be a liability of £280); Stock-in-Trade, £10,100 (which is estimated to realize £8,000); Book Debts, Good, £7,860; Doubtful and Bad, £650 (estimated to realize £178); Land and Buildings, £8,000 (estimated to realize, £5,000); Machinery and Plant, £12,500 (estimated to realize, £5,500); Cash in hand, £2. (*Chartered Accountants.*)

14. A filed his petition on 31st December, and his Statement of Affairs was composed of the following figures—

	£
Creditors unsecured	75,000
„ partly secured by lien on Shares	40,000
„ fully secured by lien on Stock	100
Liability on Bills Receivable (estimated to rank, £3,500)	7,000
Mortgage on Mill	10,000
Creditors payable in full	3,000
Book Debts, Good	20,000
„ „ Doubtful and Bad (estimated to produce £2,000)	10,000
Consignments, good	5,000
Stock (estimated to realize £40,000)	60,000
Shares (cost and estimated to realize)	16,000
Cash at Bankers	100
Bills of Exchange	1,400
Mill of the value of	11,000
Machinery (estimated to realize £12,000)	15,000
Fixtures (estimated to realize £1,500)	3,000
Cottages (estimated to realize £3,000)	3,500

On 1st January, six years ago, he had a Capital of £50,000. Profits were made in the six years of £20,500, after allowing interest on Capital £10,000, and withdrawals amounted to £63,600.

Prepare the Statement of Affairs and Deficiency Account. (*Chartered Accountants.*)

15. John Howson is unable to meet his engagements. His liabilities are—

Underbank Banking Co., Ltd.	£2,200
(As security for which they hold £1,500 Debenture Stock of the Berkshire Railway Co.)	
Unsecured Creditors	4,000
His Father	3,000
(Who holds a Mortgage on the premises.)	
Wages	100
Chief Rent (Half-year)	15
Bills discounted	500
(One-half of which will probably rank against the Estate.)	

And his Assets are—

Buildings, of the value of	2,000
Machinery, of the value of	1,500
Fixtures, etc., of the value of	200
Debenture Stock of the Berkshire Railway Co., value	1,500
Stock, estimated to realize	1,500
Book Debts, Good	1,000
„ „ Doubtful (estimated to realize £100)	200
„ „ Bad	150
Cash	15

Prepare the Statement for submission to his Creditors. (*Chartered Accountants.*)

16. Prepare Statement of Affairs of John Mason from the following particulars at 31st March—

Freehold Land and Buildings	£5,000,	estimated to	produce	£4,500
Book Debts—Good	1,000			
„ „ —Doubtful	300	„	„	100
„ „ —Bad	500	„	„	*nil*
Stock-in-Trade	1,500	„	„	1,000
Plant and Machinery	1,200	„	„	600
Cash in hand	25			
Household Furniture and Effects	300	„	„	180

Mortgage on the above Freehold Land and Buildings, £3,500, @ 5 per cent. The Interest was paid to 31st December last.

Trade Creditors unsecured, £2,500. Cash Creditors unsecured, £1,000.

Bank Overdraft, £1,000 (the Bank holding, as security, a policy for £2,000, payable at death: premium, £50 per annum; surrender value, 31st March, £600). Preferential Creditors for Rent, Rates, Taxes, and Wages, £300. (*Chartered Accountants.*)

17. Henry Jones filed his petition in bankruptcy on the 30th June. His books showed the following balances—

Cash in hand	£10	
Fixtures and Fittings	250	
(Estimated to produce £80)		
Stock-in-Trade	1,800	
(Estimated to produce £1,200)		
Sundry Creditors—Open accounts		£2,000
„ „ —Bills Payable		2,200
„ Debtors	5,000	
Good, £1,000		
Doubtful, £2,000 (estimated at 50%)		
Bank Overdraft		1,200
Capital		1,660
	£7,060	£7,060

Liability on Bills Discounted, £500; £100 expected to rank.

His Household Furniture, etc., was valued at £250.

He owned the house he lived in—it was valued at £750—and he had a mortgage on it of £600 at 4%. Interest paid to 31st December last.

Preferential Creditors amounted to £35 (included in Sundry Creditors), and £15 for Rates on his house.

Prepare a Statement of Affairs. (*Chartered Accountants.*)

18. A finds, by the following summary of Assets and Liabilities of his business, that he is insolvent, and on 15th October files his own petition in bankruptcy. Prepare his Statement of Affairs for presentation to his creditors.

The Bank's Overdraft is secured by the deposit of deeds representing his Freehold Property (valued for the purposes of the Statement at £6,000), and Dock Warrants for Stock of the value of £2,383 10s. 10d. W. Smith's Loan is secured by an assignment of a policy on A's life valued at £100. There are contingent Liabilities on Bills Discounted amounting to £589 17s. 2d., of which the sum of £229 13s. 5d. is expected to rank. Of the Book Debts, A states that £144 are Bad and £365 Doubtful; he estimates the value of the latter at £178. Of the Bills Receivable, he estimates that the sum of £283 3s. 7d. is Bad. A has Private Debts amounting to £389 5s. 3d., and has Private Assets consisting of the above-named policy and Household Furniture valued at £585.

SUMMARY OF ASSETS AND LIABILITIES

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors	23,598	7	6	Cash in hand	29	2	7
Bank Loan	6,897	3	6	Petty Cash in hand	2	13	9
W. Smith: Loan	589	2	6	Stock at Cost	9,852	8	7
H. Jones: 9 months' Rent to 29th Sept. last	150	–	–	Fixtures and Fittings	329	7	2
				Office Furniture	262	8	–
				Horses and Carts	682	5	–
Rates: 6 months to 31st March last	32	3	6	Sundry Debtors	5,289	3	5
				Bills Receivable	4,283	3	7
				Freehold Property	6,589	2	7
	£31,266	17	–		£27,319	14	8

(*Chartered Accountants.*)

19. Catchem & Cheetam filed their petition in bankruptcy on 31st December.

Their books showed that they owed £50,000 to Unsecured Creditors, £30,000 to Creditors holding lien on goods for £10,000; £10,000 Mortgage on the Works, and £1,000 for Salaries and Rates. Bills of Exchange for £10,000 had been discounted with their Bankers, and it was estimated that there was a liability in respect of them of £3,000.

Their Assets were—

Consignments, £20,000 (estimated to realize £2,000). Good Book Debts, £18,000; Doubtful Debts, £6,000 (estimated to realize £3,000); Bad Debts, £15,650. Works, cost £100,000 (depreciated out of Profit and Loss to £75,000), estimated to realize £50,000. Furniture and Fittings, £2,000

(estimated to realize £1,000). Stocks and Work in progress, £25,000 (estimated to realize £18,000). Cash and Bills, £1,350.

They commenced business on 1st January, five years ago, with a capital of £83,000. After charging annually £5,000 for depreciation of the Works, £4,000 for Interest on Capital, and £1,500 for Partners' Salaries, the trading showed profits of £6,500 in first year and £5,000 in second year; and losses of £6,000 in third year, £7,000 in fourth year, and £9,500 in fifth year; while the withdrawals of the partners averaged £5,500 a year.

Draw up Statement of Affairs, and prepare Deficiency Account. (*Chartered Accountants.*)

20. A trader files his petition in bankruptcy on 30th June, and you are instructed to prepare his Statement of Affairs. The information you are able to obtain as to his position is as follows—

The Stock-in-Trade at cost is £7,200, of which £600 worth is in the hands of a Creditor for £1,000, who is entitled to exercise a lien. Book Debts: Good, £9,750; Doubtful, £120 (worth 6s. 8d. in the £); Bad, £150; Fixtures and Fittings (after depreciation), £230; Cash in hand, £10. Bills Receivable, £1,100 (held by Bankers against overdraft of £4,000, the balance of which is secured by a second charge on Debtor's freehold property and by the guarantee of his brother). Customers' Bills under Discount, £1,500 (of which £200 is ascertained to be bad and £100 is doubtful). Freehold Property, £3,000 (subject to a first mortgage of £2,000). The Unsecured Creditors amount to £29,800, in addition to claims for Rates, Taxes, and Wages amounting to £240. The Stock-in-Trade and the Book Debts (outside the bills) are estimated to be worth 75 per cent of their face value and the Freehold Property (which cost £2,800), is valued at £2,200. Subject to the modifications above stated, the Assets are worth their book values.

You learn that the Debtor had a surplus of Assets of £5,000 on 1st January, two and a half years ago, since when he has withdrawn £3,000 per annum in equal monthly instalments. His profits for year ended 31st December (first year) were £2,100, and for second year £420, since which time he has not made up his books.

From these details you are required to prepare, as nearly as may be in statutory form: (*a*) Statement of Affairs; (*b*) Deficiency Account. (*Incorporated Accountants.*)

21. Prepare Statement of Affairs and Deficiency Account of Mr. Alfred Sykes, on 31st December. Good Book Debts in England, £6,650; Doubtful, £5,000; Bad, £4,500. Properties: Stock and Book Debts, in Brazil, £32,000; Warehouse in England, £26,000; Stock in Warehouse, £1,000; and at Bleachers' and Finishers', £4,750. Fixtures, Hoist, etc., £500. Cash at Bank, £1; in hand, £5. Creditors, £65,000 (of which £250 is for Wages and Taxes, £20,000 is in respect of a Mortgage on the warehouse building, and £7,500 is for Bleaching and Finishing). Bills Payable, £14,500; and there is a liability of £3,000 in respect of Bills Receivable, which, however, is not expected to rank. Assume that Stock, Doubtful Debts and Fixtures in England will realize two-thirds, and the Properties, Stock, and Book Debts abroad one-half of their face-value. On 1st January, five years ago, he had a Capital of £30,000. After charging Interest thereon at the rate of £1,500 a year, and paying £800 a year for Interest upon the Warehouse Mortgage, in the first three years he made profits of £4,200, £3,700, and £800 respectively; and in the last two years losses of £6,400 and £7,894. His withdrawals amounted to £6,200 a year. (*Chartered Accountants.*)

22. Prepare Statement of Affairs of Nathan Thorpe, Engineer, on 20th March.

	Book Values	Estimated to produce
Leasehold Premises held for 99 years at £50 a year	£5,000	£4,500
Fixed Machinery and Plant on the said Premises	2,000	1,000
Loose Tools, Plant, etc.	700	350
Stock-in-Trade	1,000	600
Book and other Debts—Good (*less* 5%)	300	285
,, ,, Doubtful	800	200
,, ,, Bad	2,000	

Cash in hand, £5; 500 £1 Shares in the Hole Mine Co., Ltd., 5s. per share paid (balance called up). In liquidation. No return expected. Household Furniture and Effects, £250; Life Insurance Policy for £2,000 at death, subject to premium £35 a year, due 30th December, held by Insurance Co. for Loan of £180. Surrender Value, £200 (*less* loan).

Liabilities: Creditors for Unsecured Trade Debts, £3,000; Private and Household Debts, £150; Loan of £2,000 at 4% secured by First Mortgage on Leaseholds, Interest paid to 20th May last; Bankers for Overdraft secured by second Mortgage on Leaseholds, £2,500; Loan of £1,000 at 5% secured by third charge on Leaseholds, and second charge on Life Insurance Policy. Interest paid to 20th September last; Ground Rent of Leaseholds accrued since 25th March last had not been paid; Rent of Dwelling-house, £30 for half-year due 25th December last; Taxes due 1st January last, £20; Local Rates, £25; Liability on Shares of Hole Mine Co., Ltd., above mentioned; omit calculations on Income Tax. (*Chartered Accountants.*)

23. Johnson & Caley, Merchants, are unable to meet their obligations. From their books, papers, and information supplied by them, the following particulars relative to their affairs are ascertained—

Cash in hand	£250
Debtors—Good, £1,250; Doubtful, £600 (estimated to produce £200); Bad, £1,000	2,850
Shares in the Straights Shipping Co., Ltd., of par value	5,000
Property, estimated to produce £9,000	14,000
Bills Receivable (Good)	4,250
Other Securities—£3,000 pledged with partly-secured Creditors, and the remainder with fully-secured Creditors	28,000
Johnson's Drawings	9,000
Caley's ,,	8,400
Sundry Losses	13,500
Trade Expenses	7,400
Creditors—Unsecured	25,000
,, Partly Secured	23,900
,, Fully Secured	17,000
Preferential Claims—Wages, Salaries, and Taxes	750
Johnson—Capital	10,000
Caley ,,	16,000

Prepare a Statement of Affairs, showing the Assets, with respect to their realization; also a Deficiency Account in respect of the deficiency shown by the Statement of Affairs. (*Chartered Accountants.*)

24. Prepare the respective Balance Sheets of the firm of Robinson Bros., and of the several partners—Alfred, Benjamin, and Charles; after which prepare the respective Statements of Affairs of the firm and the several

partners, giving effect to the rights of holders of securities; accepting the values of Assets as given on 3rd April—

Trade Creditors, Joint Estate, unsecured	£31,280
Cash „ „ „ „	6,642
„ „ „ „ collaterally partly secured by Policies of Assurance	9,015
On the life of Alfred, worth	1,615
„ „ Benjamin, worth	738
„ Creditors, Joint Estate, fully secured	10,435
They holding Securities belonging to the Firm, worth	14,395
Liabilities on Bills Discounted, considered good	1,340
Preferential Creditors of Joint Estate	2,128
Tradesmen's Claims on Separate Estate of Alfred	697
Cash Creditors on Separate Estate of Alfred	2,578
They holding as security Freehold Property of his, worth	3,000
Tradesmen's Claims on Separate Estate of Benjamin	119
„ „ „ „ Charles	190
Cash Creditors of Charles, unsecured	510
„ at Bank at Credit of Joint Estate	1,050
„ in hand „ „	843
Debtors „ „	2,975
Stock „ „	30,155
Fixtures and Furniture „	1,400
Household Furniture, Separate Estate of Alfred	1,000
„ „ „ „ Benjamin	1,000
„ „ „ „ Charles	500
Reversionary Interest under Will of John Smith, deceased, Separate Estate of Charles, worth	200
Alfred had overdrawn his Account with the Firm by	4,500
Benjamin „ „ „	3,000
Charles „ „ „	1,182

(Chartered Accountants.)

25. A business carried on under the style of Wood & Smith finds itself in difficulties and instructs you to prepare a Statement of Affairs for submission to a private Meeting of the Creditors.

The following particulars are obtained from the Books, as at 1st February—

	£	s.	d.	£	s.	d.
Unsecured Creditors				23,000	5	6
Loan from A				2,000	–	–
Creditors partly secured	4,600	–	–			
Estimated Value of Security	4,000	–	–			
Preferential Claims				240	12	6
Stock-in-Trade				1,500	8	–
Cash at Bank				270	14	2
„ in hand				65	4	10
Fixtures				400	–	–
Debtors—Good	820	–	–			
„ Bad	72	15	9			
„ Doubtful	41	5	–			

As regards the separate Estates, Wood had no creditors nor assets, and Smith was a limited partner with £1,000 in the business. With respect to the loan, A had lent the £2,000 without security, and under an arrangement whereby he was to receive interest varying with the profits.

(*a*) Prepare Statement of Affairs allowing 15 per cent off Stock, 10 per cent off good Book Debts (assuming that the Bad and Doubtful Debts realized *nil*), and 50 per cent off Fixtures.

(*b*) Append to statement any comments upon transactions, which, in your opinion, require special consideration. (*Incorporated Accountants.*)

26. A and B carried on business in partnership as Ironmongers, and on 31st December, being in financial difficulties, they called their creditors together and laid before them the following Statement of Affairs—

Creditors			*Assets*	
Unsecured Creditors .		£1,200	Cash in hand . . .	£10
Bank for Overdraft—			Stock-in-Trade (cost £1,000)	
Unsecured . .		600	estimated to produce .	750
Secured Creditor—			Book Debts—Good, £300 do.	300
Loan on Mortgage .	£800		„ „ Doubtful, £100 do.	50
Value of Property			„ „ Bad, £150 do.	—
contra . .	1,000		Fixtures and Fittings (cost	
			£500) . . . do.	100
Estimated Surplus to			Property Valued at £1,000	
contra . . .	200		subject to Mortgage for	
			£800 contra — Estimated	
Preferential Creditors			Surplus . . .	200
for Rent, Wages, etc.,			A's Estate—Estimated Surplus	150
to contra . .	160			£1,560
			Deduct Preferential Creditors	160
				£1,400
			Deficiency	400
		£1,800		£1,800

B's estate showed a considerable deficiency.

The Creditors agreed to accept 12s. 6d. in the £1, and appointed M as Trustee to realize the estate and pay the dividend, his remuneration to be 5 per cent on the amount realized and 5 per cent on the amount distributed. The legal and other costs amounted to £35.

On realization, the Stock produced £800; the Book Debts, £335; the Fixtures and Fittings, £115; the surplus from the property was £150; and the surplus from A's estate, £120.

Draw up the Trustee's final Statement of Account showing the disposition of the estate. (*Chartered Accountants.*)

27. Prepare from the following figures and particulars, a Trustee's Cash Account showing the position of the estate of Messrs. Tant & And, against whom a receiving order was made on 19th October, and first and final dividend paid on 28th September following.

The chief assets were Book Debts, which the Debtors estimated to produce £2,144 9s., but which realized £2,135 5s. 11d., and two Life Policies which the Debtors stated were worth £472 19s. 9d., but which realized £565, out of which the Trustee had to pay £375 16s. 6d. to redeem the security. The Cash in hand and at bank amounted to £4 7s. 11d.; some small Investments stated to be worth £55 realized £40 13s. 2d. The Miscellaneous Receipts were £8 12s. 8d. and £5 Deposit on Creditors' Petition.

There were nine Preferential Creditors' Claims amounting to £26 9s. 6d., and a Dividend of 2s. 9¼d. in the £ was paid to the unsecured creditors, whose claims amounted to £13,250 4s. 4d.

The other payments amounted to £504 4s. 8d., including Trustees' Remuneration, £206 3s. 6d.; Board of Trade and Court Fees, £123 11s. 5d.; Law Costs, £60 15s. 8d.; Auctioneers' Charges and Incidental Outlay. (*Incorporated Accountants.*)

28. A Trustee of a bankrupt Estate, with Liabilities of £18,000, has completed his realization of the Estate, and prepares to close the matter. His receipts have been—

From Stock-in-Trade	£1,250	From Trading	£7,000
„ Book Debts	3,100	„ Household Furniture	450
„ Jewellery Pledged	700	„ Freehold Buildings	3,000

His payments have been—

Costs of Petition	£40	Mortgage on Freehold	£2,000
Auctioneers' Costs	180	Board of Trade Fees	80
Shorthand Writers' Charges	15	Notices in *Gazette*, etc.	5
Trading Payments	6,250	To redeem Jewellery	400

The Committee allow the remuneration of the Trustee at a commission of 5 per cent on Assets realized and 3 per cent on Assets distributed. Without providing for further payments, you are required to write up the Estate Cash Book, showing the final close of the Estate. You must assume that all items have been received from or paid to Bank, but analysis columns may be dispensed with. (*Incorporated Accountants.*)

REVISION EXERCISE XX

1. Give Journal entries (with narrations) to record the following—

Jan.	1.	I sold horses to Dodd for £500, receiving cash on account £100 and four Acceptances of £100 each at 1, 2, 3 and 4 months respectively.	
„	3.	Discounted Bills due 4th Feb. and 4th March with my Bank and was credited with the proceeds £195.	
„	31.	Dodd gave me notice that he could not meet the bill due 4th Feb., and requested that it should not be presented.	
Feb.	4.	Bank debited my account with the Bill not met.	
Apr.	5.	Bank credited my account with Bill due 4th inst.	
„	6.	Received cash for balance of Dodd's account—the Bill outstanding was cancelled and returned to Dodd.	
May	1.	Received First and Final Dividend on Bradley's A/c of 5s. 6d. in £	£2 15 –
„	2.	James's A/c (previously written off as bad) recovered part	5 – –
„	3.	Consigned Goods to Earle, Newcastle	100 – –
„	4.	Bought of French on Joint A/c with Brockle—Tea	500 – –
„	5.	Received Cash for Brockle's half of transaction	250 – –
„	6.	Sold for Cash Tea purchased on Joint A/c with Brockle	700 – –
„	6.	I charged Commission and my Expenses on the Joint A/c Sale	18 6 –
„	7.	Paid Brockle amount due to him	— – –

Give copy of the Joint Adventure A/c, showing division of the Profit. (*Civil Service, Customs and Excise.*)

2. (*a*) What is an Accommodation Bill?

(*b*) Smith has transactions with Jones in accommodation bills. Give the Journal entries with narrations which should be made in the books of Jones to record the following transactions—

On 1st Jan. Smith draws on Jones at three months for £1,000 and agrees

that the proceeds of the bill should be shared equally. He discounts the acceptance with the London and Joint Stock Bank, Ltd., receiving £990 in cash, of which he hands Jones £495 in cash. On 31st March, in order to provide funds to meet this bill, Jones draws on Smith for £1,100 at three months, and discounts the acceptance with Parr's Bank, receiving £1,090 in cash, and hands Smith £44 in cash. On 29th June, Smith is made a bankrupt. Jones meets both bills. On 31st Dec. a first and final dividend of Smith's estate is declared at 10s. in the £. (*Civil Service, Second Division Clerks.*)

3. (*a*) State the general rules for discriminating between Capital and Revenue expenditure.

A manufacturer buys some Plant and Machinery. The invoice total is £10,655 14s. 6d. Included in this sum is an amount of £250 12s. 8d. for "duplicate parts" of certain intricate and delicate machinery. Is this last item Capital or Revenue expenditure? Give reasons for your answer. How should the amount of the invoice be treated in the books?

(*b*) What are Secret Reserves? How are they made? State briefly the arguments for and against them.

4. The Toilet Requisites Co., Ltd., manufacture and sell two specialities, namely, "Excelsior" Soap and "Nymph" Scent. The net sales are—Soap Dept., £47,328 14s. 1d.; Scent Dept., £31,552 9s. 5d. The gross profits of the departments are as follows—Soap, £26,480 3s. 11d.; Scent, £16,660 12s. 2d. You are asked to construct the Profit and Loss Account, and to ascertain the net profit of each department, apportioning the following expenses according to the respective turnovers of the two departments—

	£	s.	d.
Advertising	10,650	2	1
General Expenses	17,426	10	5
Depreciation, Bad Debts, and Reserves	5,781	7	6

The Managing Director is entitled to a commission of 5 per cent on the net profit of each department after charging this commission.

5. T. Tompkins, wholesale boot and shoe dealer, has three ledgers, "Bought," "Sales," and "General" respectively, all kept on the self-balancing principle.

(*a*) Rule a suitable form of Cash Book (payments side only), and enter therein the following particulars, analysing them into their proper columns—

19—			£	s.	d.
Jan.	4.	Paid Wages by cheque	27	13	6
,,	11.	Paid D. Dunlop by cheque	165	18	6
,,	11.	Discount allowed by him	8	14	8
,,	11.	Paid Wages by cheque	31	14	8
,,	13.	Bill Payable due this day duly honoured	270	10	6
,,	16.	Paid E. Ernest by cheque	82	9	–
,,	16.	Discount allowed by him	4	6	9
,,	17.	Drew cheque for Office use	10	–	–
,,	18.	Drew cheque for Self	50	–	–
,,	18.	Paid Wages by cheque	29	2	10
,,	19.	Purchased of B. Brown for Cash, Goods	50	10	5
,,	24.	Bill Receivable £150, due this day (acceptor J. Smith), returned by Bank dishonoured, noting charges 7s. 6d.	150	7	6
,,	25.	Paid F. Franklin by cheque	206	9	6
,,	25.	Discount allowed by him	10	17	4

(*b*) Submit *pro forma* Bought and Sales Ledger Adjustment Accounts as they would appear in Tompkins' General Ledger.

6. Brown & Robinson are partners dividing their profits in the proportion of three-fourths and one-fourth. Brown's Capital is £15,000 and Robinson's is £10,000. They dissolve partnership and realize the assets standing on the Balance Sheet as follows—

Stock		£8,000	realized	£7,500
Book Debts	£14,000			
Less Reserve	2,000			
		12,000	„	10,000
Buildings		7,500	„	7,000
Plant and Machinery		8,000	„	3,000
Cash		2,500	„	2,500

Their liabilities are as follows—

Sundry Creditors	£9,000
Mortgage on Buildings	3,000
Bills Payable	1,000

which are all paid in full.

Prepare a summary of the Cash Account and show the adjustment of the Partners' Accounts. (*Civil Service, Second Division Clerks.*)

7. The Net Profits of Freestone & Co., Ltd., for the year 19— amounted to £20,000. Undistributed Balance from previous year was £5,000; Paid-up Capital in Ordinary Shares, £70,000; Debentures Issued, £30,000; Plant Account, £80,000.

Give Journal entries (with narrations) to give effect to the following—

(1) Interest at 5 per cent per annum less tax at 1s. 2d. half-year due 31st Dec. in respect of Debentures to be provided out of profits.

(2) Dividend of 10 per cent declared on the Ordinary Shares for the year less tax at 1s. 2d.

(3) Write off 10 per cent of Plant Account to Depreciation Account.

(4) Separate Banking Account to be opened for the Dividend. (*Civil Service, Customs and Excise.*)

8. Prepare a Balance Sheet of Black, Kelly & Co., Ltd., on 31st March, from following figures—

Freehold Land and Buildings, £30,000; Stock on hand, £12,000; Nominal Capital, £100,000.

Issued Capital—50,000 6 per cent Cumulative Preference Shares of £1 fully paid, £50,000; 10,000 Ordinary Shares of £5, £2 called up, £20,000; Plant and Machinery, £14,000; Mortgage Debentures, £10,000; Additions to Plant, £1,000; Sundry Debtors, £15,000; Cash in hand, £100; Cash at bank, £1,500; Creditors on Open Accounts and Bills Payable (including £35 unclaimed dividends), £4,500; Balance in bank (Dividend Account), £35; Reserve Fund, £500; Bills Receivable, £1,000; Insurance in advance, £50. Amount owing on First Call Account, £100. Profit and Loss A/c—

Debit Balance from last year	£625
Loss this year	9,590

(*Civil Service, Customs and Excise.*)

9. The following are the Balances extracted from the books of the Ideal Newspaper Co., Ltd., on 31st Dec., from which you are required to prepare Revenue Account and Balance Sheet; Nominal Capital, £100,000, divided into 40,000 Preference Shares of £1 each, and 60,000 Ordinary Shares of £1 each.

Issued—40,000 Cumulative Preference Shares of £1 each, 7s. 6d. paid	£15,000	Calls in advance	£150
		Calls in arrear	75
Issued — 60,000 Ordinary Shares of £1 each, 5s. called up	15,000	Freehold Property, 1st Jan.	28,000
		Plant and Machinery, 1st Jan.	9,500
		Sundry Creditors	7,300

Returns and unsolds	£2,650	Motor-cars, Vans, etc., 1st Jan.	£845
Reserve, 1st Jan.	10,000	Motor-cars, Vans, etc., additions made on 30th June	90
Dividends accrued on Investments	300	Purchases of Paper	8,250
Cash in hand	130	Purchases of Ink	475
Liverpool Banking Co., Ltd.	5,295	Salaries	9,230
Sales (cash and credit)	22,650	Wages	1,000
Advertisements . *Cr.*	19,090	Trade Charges	7,860
Debtors	5,800	Correspondence	4,365
Linotype Installation, 1st Jan.	1,300	Discounts Allowed	855
Linotype Installation, additions made on 30th June	135	Commission	380
Additions to Plant and Machinery, made on 30th June	980	Printing and Stationery	110
Stock, 1st Jan.	1,750	Free Copies	695
Investments at cost	6,340	Bad Debts	75
Profit and Loss A/c, 1st Jan. . *Cr.*	7,320	Bank Interest, Dividends, etc. . *Cr.*	130
		Repairs	155

Reserve for Wages, £48; Discounts, £350; Bad Debts, £200. Depreciate Freehold Property at the rate of 1 per cent per annum, Plant and Machinery, 7½ per cent per annum; Linotype installation, 10 per cent per annum; Motor-vans, 15 per cent per annum.

The amount received for advertisements includes £180 for advertisements which will not run off until next year. The sales include papers prepaid for next year amounting to £350. Stock-on-hand, 31st Dec., £1,646 15s. (*Lancashire and Cheshire Union.*)

10. Set out below are the Ledger Balances, as on 31st Dec., of The Sylhet Tea Plantations, Ltd. The nominal capital of the Company consists of 20,000 ordinary shares of £10 each.

There was no Stock on hand on 1st Jan., but at the close of the year (31st Dec.) the tea unsold was valued at £3,854.

The Ledger Balances were as follows—

Share Capital A/c (Issued 16,200 shares of £10 each, fully paid)	£162,000	Boxes Purchased (the whole to be written off during the year)	£672
Reserve A/c	5,000	Rent and Taxes	543
Sundry Creditors	8,851	Machinery Repairs	423
Bills Payable	8,010	General Charges	331
Plantations A/c (Land in Sylhet and Buildings thereon)	184,000	Hospital Expenses	1,565
Bank Overdraft	1,870	Marine Insurance	248
Sundry Debtors	8,400	Fire Insurance	120
Machinery and Plant A/c	3,700	Law Charges	32
Profit and Loss A/c (undistributed balance as on 1st Jan.)	10,500	Directors' Fees	350
Dividend paid on 30th June	8,100	London Office A/c (Salaries and Expenses)	1,021
Wages (Europeans)	4,400	Auditor's Fee	52
Wages (Natives)	9,527	Freight Charges	2,035
Crop Expenses A/c	3,200	Managers' Commission	1,030
Manufacturing Expenses A/c	2,480	Tea Sales	37,860
		Calcutta Agency Expenses	1,745
		Transfer Fees Received	5
		Cash in hand	122

Before closing the books the following adjustments are necessary—

(i) Make a provision of 5 per cent for Bad and Doubtful Debts.

(ii) Provide for depreciation on Machinery and Plant at the rate of 10 per cent.

Prepare a Profit and Loss Account for the year ended 31st Dec. Carry £3,000 to the Reserve Account, and prepare a Balance Sheet. (*London Chamber of Commerce.*)

11. The Excelsior Manufacturing and Trading Co., Ltd., has a Capital of £80,000 divided into 60,000 Ordinary Shares of £1 each, 10s. per share called, and 20,000 6 per cent Preference Shares of £1 each fully paid.

The following is the Trial Balance at 31st Dec.—

	Dr. £	s.	d.	*Cr.* £	s.	d.
Ordinary Share Capital				29,980	–	–
Preference Share Capital				20,000	–	–
Cash in hand	217	11	4			
Cash at Bank	5,650	16	8			
Sales and Purchases	26,120	5	3	52,750	17	5
Returns Out and In	850	14	10	420	10	2
Stock, 1st Jan.	12,200	12	1			
Land and Buildings	11,700	–	–			
Manufacturing Expenses	2,400	7	8			
Machinery and Plant	13,500	–	–			
Creditors and Debtors	26,260	7	2	10,460	8	10
Discounts Received and Allowed	375	3	8	627	2	9
Patents	2,475	–	–			
Rates, Taxes, and Insurance	1,224	8	3			
Calls in Advance and Arrear	30	–	–	50	–	–
Profit and Loss A/c (balance 1st Jan.)				720	15	5
Travellers' Commission and Expenses	1,050	2	1			
Bad Debts Reserve, 1st Jan.				1,030	10	4
Bad Debts	820	10	2			
Salaries	1,265	9	6			
General Expenses	357	1	2			
Interim Ordinary Share Dividend	850	–	–			
„ Preference „ „	600	–	–			
Transfer Fees				15	2	6
Reserve Fund				4,850	–	–
Depreciation	2,075	–	–			
Manufacturing Wages	10,740	4	3			
Forfeited Shares (40 of £1 5s. paid)				10	–	–
National Insurance Stamps	151	13	4			
	£120,915	7	5	£120,915	7	5

Depreciation has been dealt with. Make a Bad Debts Reserve of 5 per cent Reserve £250 for Directors' Fees. Transfer £1,000 to the Reserve Fund. The National Insurance Stamps Account represents the purchase of 100 sevenpenny stamps per week for the year. Only 3d. of each 7d. has, however, to be borne by the Company, the other 4d. being recoverable by law from the insured employees. Fourpence per week per man has been deducted from the Wages of 90 workmen and from the Salaries of 10 of the Office staff, but no adjustment has been made in the books. Prepare Trading and Profit and Loss Accounts for the year ended 31st Dec., 19—, and a Balance Sheet as at that date. The Stock at 31st Dec. was £12,720 4s. 6d.

CHAPTER XXI

INSURANCE ACCOUNTS

INSURANCE or Assurance is a contract under which the insurer (or assurer or underwriter) undertakes to indemnify the insured or assured against a particular loss, or to pay a sum of money on the happening of a certain event. The consideration received by the insurer is a sum of money called the premium, which may be paid either weekly, monthly, yearly, or at any other period according to arrangement.

The chief forms of insurance comprise Life, Fire, Marine, Personal Accident, and Employers' Liability, while a large number of insurances are effected annually against risks of Burglary, Loss of Profits, Excessive Bad Debts, Embezzlement, etc.

INSURANCE AND ASSURANCE

The term "assurance" has reference to events which are certain to happen, and is almost exclusively applied in this sense to Life risks. The term "insurance" though also applied to Life risks, is more particularly applicable to those risks which are contingent in their nature, as Fire, Accident, Marine Losses, etc.

POLICY

The Policy is the document embodying the terms of the contract between the insurer and insured.

Insurance Companies constitute a very important section of commercial enterprise, and the majority of them are long-established and financially sound undertakings.

Companies may be divided broadly into two classes—

1. **Mutual Companies.** Those in which there are no shareholders in the ordinary sense of the term, the whole of the profits being divided among the policy-holders either in the distribution of bonuses or in reduction of premiums.

2. **Proprietary Companies.** Those in which the capital is subscribed by shareholders, who receive dividends according to the profits made, the policy-holders having no interest in the business except the prompt settlement of their claims, unless (in life assuranoe) their policies are endorsed "with profits," in which case

they receive a bonus according to the extent of their insurance with the company.

SURRENDER VALUE

On the expiry of three years a life policy possesses what is called "surrender value"; it is a security which has a market value based upon the amount of the premiums paid *less* deductions for the risk which has already attached to the insurance and for management expenses. The surrender value of a policy in the first few years bears but a small proportion to the premiums paid, but this proportion increases in later years. A life policy can be deposited as security for a loan, though such security is not favoured by bankers, as the policy lapses and the security disappears if the insured fails to pay the premiums or fails to adhere to the terms of the contract, as, for instance, by residing in a forbidden country, such as the Gold Coast. In any case, the amount of the loan never exceeds the surrender value.

INSURABLE INTEREST

An insurance contract is a contract of indemnity, i.e. the object of insurance is to compensate for any loss suffered and it is not meant to provide a means of gambling on the occurrence or non-occurrence of a particular event by otherwise uninterested persons. Consequently the insured must have an "insurable interest." He must be prejudiced adversely by the occurrence of the event, otherwise the contract is not valid and cannot be enforced in a court of law. A particular illustration of the necessity for insurable interest occurs in Marine Insurance. It was a common practice for insurances to be effected with the members of Lloyd's on overdue vessels by persons who had no interest at all in the marine adventure which was the subject of the insurance. Such an insurance constitutes a mere gamble on the safe arrival or otherwise of a particular ship and the practice led to many abuses. The Marine Insurance (Gambling Policies) Act, 1909, was passed, rendering liable, on summary conviction, to imprisonment for a term not exceeding six months, or to a fine not exceeding £100, any person effecting a contract of marine insurance without bona fide interest or bona fide expectation of acquiring such an interest in the subject-matter insured. The same penalties are also imposed on any broker who, with knowledge of the facts, effects the illegal insurance.

BROKERS

Insurances are mainly effected through insurance brokers, and if

the insurance is taken out with a member of Lloyd's, the services of a broker are compulsory.

TARIFF AND NON-TARIFF OFFICES

Tariff offices comprise those which have combined for the purpose of arranging fixed premiums for the various risks undertaken. Non-tariff offices are those outside the " ring," and, not being bound by the minimum rates, do considerable business as a result of their being able to quote lower premiums.

RE-INSURANCE

With a view to averaging losses, insurance companies frequently reinsure with other companies risks which they have undertaken. A company can only safely undertake risks according to its resources, and, if an insurance is required for a risk which would necessitate a departure from this policy, a part of the risk is reinsured with another company at an agreed premium, which is usually less than the amount received from the person effecting the original insurance.

PROCEDURE

In life assurance a proposal form is filled up, on which full particulars are required as to the insured, his general health, longevity or otherwise of parents, and any information which will guide the insurer in fixing the premium. The questions must be answered in " utmost good faith," as insurance is a contract in which failure to disclose all material facts avoids the policy. This is, of course, a necessary provision, as the person seeking the insurance is the only one who can provide the information upon which the premium is based.

In marine insurance the particulars are inserted in a " slip." If the insurance is being effected with a member of Lloyd's the slip is filled up by the broker, who then approaches various underwriters until the whole amount to be insured is underwritten, the slip being initialed by the underwriters concerned, the share of the risk undertaken in each case being added. The policy is then drafted, embodying the particulars contained in the slip. Should a loss occur before the policy is made out, the slip is produced as evidence of the date when the insurance was effected, but it is necessary to complete the policy before a claim can be made.

The statutory requirements regarding the conduct of insurance business and the accounts to be kept are given in the Assurance Companies Act, 1909.

The special companies to which reference is made are those concerned with—

(*a*) Life assurance business; that is to say, the issue of, or the undertaking of liability under, policies of assurance upon human life, or the granting of annuities upon human life;

(*b*) Fire insurance business; that is to say, the issue of, or the undertaking of liability under, policies of insurance against loss by or incidental to fire;

(*c*) Accident insurance business; that is to say, the issue of, or the undertaking of liability under, policies of insurance upon the happening of personal accidents, whether fatal or not, disease, or sickness, or any class of personal accidents, disease, or sickness;

(*d*) Employers' liability insurance business; that is to say, the issue of, or the undertaking of liability under, policies insuring employers against liability to pay compensation or damages to workmen in their employment;

(*e*) Bond investment business; that is to say, the business of issuing bonds or endowment certificates by which the company, in return for subscriptions payable at periodical intervals of two months or less, contract to pay the bond-holder a sum at a future date, and not being life assurance business as hereinbefore defined;

subject as respects any class of assurance business to the special provisions of this Act relating to business of that class. (Section 1.)

DEPOSIT

Section 2 provides that every assurance company shall deposit and keep deposited with the Paymaster-General for and on behalf of the Supreme Court the sum of £20,000 to be invested in approved securities, the interest accruing to be paid to the company; and the Certificate of Incorporation is not issued until the deposit has been made. Under subsection 4, where a company carries on, or intends to carry on, assurance business of more than one class, a separate sum of £20,000 shall be deposited and kept deposited as respects *each* class of business, and the deposit made in respect of any class of business in respect of which a separate assurance fund is required to be kept shall be deemed to form part of that fund, and all interest accruing due on any such deposit or the securities in which it is for the time being invested shall be carried by the company to that fund.

By Sections 31 and 32, however, it is not necessary to make a deposit in respect of fire insurance or in respect of accident insurance in addition to deposits for life assurance and employers' liability insurance in the same company. The subsection dealing with this reads—

It shall not be necessary to make a deposit in respect of fire insurance business where the company has made a deposit in respect of any other class of insurance business, and where a company, having made a deposit in respect of fire insurance business, commences to carry on life assurance business or employers' liability insurance business, the company may transfer

the deposit so made to the account of that other business, and after such transfer the deposit shall be treated as if it had been made in respect of such other business.

Other subsections make similar provisions regarding accident insurance.

In the same way, in connection with the two classes of business —fire and accident, the provisions regarding the necessity of keeping separate funds into which all receipts are paid, do not apply.

With regard to employers' liability, as soon as the employers' liability fund set apart for the satisfaction of the claims of policy-holders of that class amounts to forty thousand pounds, the Pay-master-General shall, if the company has made a deposit in respect of any other class of assurance business, return to the company the money deposited in respect of its employers' liability insurance business, and it shall not be necessary thereafter for the company to keep any sum deposited in respect of that business so long as the sum deposited in respect of any other class of assurance business is kept deposited. (Section 33 (1) (*e*).) The provisions of this sub-section apply also to Bond Investment Business.

Summarized, the above sections provide—

Life Assurance and *Employers' Liability Insurance.*	Separate deposits and separate funds are necessary.
Employers' Liability and *Bond Investment.*	As soon as the separate funds in each case amount to £40,000 the deposit is returned, if a deposit is maintained in respect of any other class of business.
Fire and *Accident.*	Neither deposit nor separate fund is required if there already exist deposits and funds in connection with any other class of business.

ACCOUNTS AND BALANCE SHEET

By Section 4 it is provided that every assurance company shall, at the expiration of each financial year of the company, prepare—

(*a*) A revenue account for the year in the form or forms set forth in the First Schedule to this Act and applicable to the class or classes of assurance business carried on by the company;

(*b*) A profit and loss account in the form set forth in the Second Schedule to this Act, except where the company carries on assurance business of one class only and no other business;

(*c*) A balance sheet in the form set forth in the Third Schedule to this Act.

The forms of account referred to are as on following pages.

SCHEDULES

FIRST SCHEDULE

N.B. Where marine insurance business or sinking fund or capital redemption insurance business is carried on, the income and expenditure thereof to be stated in like manner in separate accounts. Any additional businesses (including employers' liability insurance business transacted out of the United Kingdom) to be shown in a separate inclusive general account.

(A.)—*Form applicable to Life Assurance Business*

Revenue Account of the..for the Year ending..................................in respect of Life Assurance Business.

		Business within the United Kingdom	Business out of the United Kingdom	Total
		£ s. d.	£ s. d.	£ s. d.
	Amount of life assurance fund at the beginning of the year	—	—	
	Premiums—			
	Consideration for annuities granted			
	Interest, dividends, & rents £ s. d.			
	Less income tax thereon .	—	—	
	Other receipts (accounts to be specified) . . .	—	—	
	£			

	—	Business within the United Kingdom	Business out of the United Kingdom	Total
		£ s. d.	£ s. d.	£ s. d.
	Claims under policies paid and outstanding—			
	By death			
	By maturity			
	Surrenders, including surrenders of bonus			
	Annuities			
	Bonuses in cash			
	Bonuses in reduction of premiums . .			
	Commission			
	Expenses of management . . .	—	—	
	Other payments (accounts to be specified)	—	—	
	Amount of life assurance fund at the end of the year, as per Third Schedule .	—	—	
	£			

NOTE 1. Companies having separate accounts for annuities to return the particulars of their annuity business in a separate statement.

NOTE 2. Companies having both Ordinary and Industrial branches to return the particulars of the business in each department separately.

NOTE 3. Items in this Account to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the Company's risks.

NOTE 4. If any sum has been deducted from the expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

NOTE 5. Particulars of the new life assurances effected during the year of account to be appended to the above Account showing separately, as respects business within and business out of the United Kingdom, the number of policies, the total sums assured, the amount received by way of single premiums, and the amount of the yearly renewal premium income, the items to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the company's risks. The particulars as to yearly renewal premium income need not be furnished in respect of Industrial business.

NOTE 6. The columns headed "Business out of the United Kingdom," in the case of companies having their head office in the United Kingdom, apply only to business secured through Branch Offices or Agencies out of the United Kingdom.

(B.)—*Form applicable to Fire Insurance Business*

Revenue Account of the______________for the Year ending___________19____in respect of Fire Insurance Business

	£ s. d.	£ s. d.		£ s. d.
Amount of fire insurance fund at the beginning of the year— Reserve for unexpired risks . . . Additional reserve (if any) . . .			Claims under policies paid and outstanding	
			Commission	
			Expenses of management . . .	
			Contributions to fire brigades . .	
Premiums			Other payments (**accounts to** be specified)	
Interest, dividends, and rents	£ s. d.		Amount of fire insurance fund at the end of the year as per Third Schedule— Reserve for unexpired risks being per cent of premium income for the year . (£ s. d.)	
Less income tax thereon			**Additional** Reserve (if any) . . .	
Other receipts (accounts to be specified)				
£			£	

Note 1. **Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.**

Note 2. If any sum has been deducted **from** the **Expenses of** Management **Account, and taken** credit for **in** the Balance Sheet as **an asset,** the sum so deducted to be separately shown in the above Account.

(C.)—*Form applicable to Accident Insurance Business*

Revenue Account of the ____________ for the Year ending __________ 19____ in respect of Accident Insurance Business

		£ s. d.	£ s. d.			£ s. d.	£ s. d.
	Amount of accident insurance fund at the beginning of the year—				Payments under policies, including medical and legal expenses in connection therewith		
	Reserve for unexpired risks . . .				Commission		
	Total estimated liability in respect of outstanding claims . .				Expenses of management . . .		
	Additional reserve (if any) . . .				Other payments (accounts to be specified)		
	Premiums—				Amount of accident insurance fund at the end of the year as per Third Schedule—		
	Interest, dividends, and rents	£ s. d.			Reserve for unexpired risks being per cent of premium income for the year .		
	Less income tax thereon				Total estimated liability in respect of outstanding claims as per Fourth Schedule (C) .		
					Additional reserve (if any) . . .		
		£				£	

NOTE 1. Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2. If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(D.)—*Form applicable to Employers' Liability Insurance Business*

Revenue Account of the__________for the Year ending________19____in respect of Employers' Liability Insurance Business transacted within the United Kingdom

		£ s. d.	£ s. d.
	Amount of employers' liability insurance fund at the beginning of the year—		
	Reserve for unexpired risks . . .		
	Total estimated liability in respect of outstanding claims. . .		
	Additional Reserve (if any) . . .		
	Premiums		
		£ s. d.	
	Interest, dividends, and rents		
	Less income tax thereon		
	Other receipts (accounts to be specified)		
	£		

		£ s. d.	£ s. d.
	Payments under policies, including medical and legal expenses in connection therewith		
	Commission		
	Expenses of management . . .		
	Other payments (accounts to be specified)		
		£ s. d.	
	Amount of employers' liability insurance fund at the end of the year, as per Third Schedule—		
	Reserved for unexpired risks, being per cent of premium income for the year .		
	Total estimated liability in respect of outstanding claims, as per Fourth Schedule (D) .		
	Additional reserve (if any)		
	£		

Note 1. Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

Note 2. If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(E.)—*Form applicable to Bond Investment Business*

Revenue Account of the______________for the Year ending__________19____in respect of Bond Investment and Endowment Certificate Business

		£ s. d.	£ s. d.			£ s. d.	£ s. d.
	Amount of Bond Investment and Endowment Certificate Fund at the beginning of the year				Claims under bonds and certificates, paid and outstanding		
	Additional reserve (if any) .				Commission		
	Premiums				Expenses of management . . .		
		£ s. d.			Other payments (accounts to be specified)		
	Interest, dividends, and rents					£ s. d.	
	Less income tax thereon				Amount of Bond Investment and Endowment Certificate Fund at the end of the year as per Third Schedule		
	Other receipts (accounts to be specified) .				Additional reserve (if any) .		
	£				£		

Note 1. Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

Note 2. If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

Section 4.

SECOND SCHEDULE

PROFIT AND LOSS ACCOUNT OF THE FOR THE YEAR ENDING 19 .

	£ s. d.		£ s. d.
Balance of last year's account		Dividends and bonuses to shareholders . .	
Interest and dividends not carried to other accounts . . . . £ s. d. Less income tax thereon		Expenses not charged to other accounts . .	
		Loss realized (accounts to be specified) . .	
Profit realized (accounts to be specified) . .		Other payments (accounts to be specified) . .	
Other receipts (accounts to be specified) . .		Balance as per Third Schedule	
£		£	

Section 4.

THIRD SCHEDULE

Balance Sheet of the ________________ on the ________________ 19____

Liabilities		£	s.	d.
Shareholders' capital paid up (if any)	£			
Life assurance funds*—				
Ordinary branch				
Industrial do.				
Annuity fund*				
Fire insurance fund				
Accident insurance fund				
Employers' liability insurance fund				
Bond investment and endowment certificate fund				
Marine insurance fund				
Sinking fund and capital redemption fund				
Profit and loss account				
Other funds (if any) to be specified				
	£			
Claims admitted or intimated but not paid†				
Life assurance				
Fire insurance				
Bond investment				
Annuities due and unpaid†				
Other sums owing by the company† (to be stated separately under each class of business).				
	£			

Assets	£	s.	d.
Mortgages on property within the United Kingdom			
Do. do. out of the United Kingdom			
Loans on parochial and other public rates			
Do. Life interests			
Do. Reversions			
Do. Stocks and shares			
Do. Company's policies within their surrender values			
Do. Personal security			
Investments—			
Deposit with the High Court (securities to be specified)			
British Government securities			
Municipal and county securities, United Kingdom			
Indian and Colonial Government securities			
Do. provincial securities			
Do. municipal do.			
Foreign Government securities			
Do. provincial securities			
Do. municipal do.			
Railway and other debentures and debenture stocks—Home and Foreign			
Railway and other preference and guaranteed stocks			
Do. ordinary stocks			
Rent charges			
Freehold ground rents			
Leasehold do.			
House property			
Life interests			
Reversions			
Agents' balances			
Outstanding premiums†			
Do. interest, dividends, and rents†			
Interest accrued but not payable†			
Bills receivable			
Cash—			
On deposit			
In hand and on current account			
Other assets (to be specified)			
£			

* Life companies having separate annuity fund to show amount thereof separately.

† These items are or have been included in the corresponding items in the First Schedule.

NOTE 1. When part of the assets of the company are specifically deposited, under local laws, in various places out of the United Kingdom, as security to holders of policies there issued, each such place and the amount compulsorily lodged therein must be specified in respect of each class of business, except that, in the case of fire, accident, or employers' liability insurance business, it shall be sufficient to state the fact that a part of the assets has been so deposited.

NOTE 2. A Balance Sheet in the above form must be rendered in respect of each separate fund for which separate investments are made.

NOTE 3. The Balance Sheet must state how the values of the Stock Exchange securities are arrived at, and a certificate must be appended, signed by the same persons as sign the Balance Sheet, to the effect that in their belief the assets set forth in the Balance Sheet are in the aggregate fully of the value stated therein, less any investment reserve fund taken into account. In the case of a company transacting life assurance business or bond investment business, this certificate is to be given on the occasions only when a statement respecting valuation under the Fourth Schedule is made.

NOTE 4. In the case of a company required to keep separate funds under section 3 of this Act, a certificate must be appended, signed by the same person as signed the Balance Sheet and by the auditor, to the effect that no part of any such fund has been applied, directly or indirectly, for any purpose other than the class of business to which it is applicable.

ACTUARIAL REPORT

Section 5 provides that every assurance company shall once in every **five years** or at such shorter intervals as may be prescribed by the instrument constituting the company or by its by-laws, cause an investigation to be made into its financial condition, including a valuation of its liabilities, by an actuary, such abstract to be made in the forms provided. In drafting the forms for this purpose, the following are in brief the particulars necessary—

(1) Date.

(2) The general principles adopted in the valuation and the method followed in the valuation of particular classes of assurances, including a statement of the method by which the net premiums have been arrived at.

(3) The tables of mortality used in the valuation.

(4) The rate or rates of interest assumed in the calculations.

(5) The actual proportion of the annual premium income, if any, reserved as provision for future expenses and profits.

(6) The consolidated revenue account since the last valuation, or since the commencement of business if within five years.

(7) The liabilities of the company under life policies and annuities at the date of the valuation, showing the number of policies, the amount assured, and the amount of premiums payable annually under each class of policies, both with and without participation in profits; and also the net liabilities and assets of the company with the amount of surplus or deficiency.

VALUATION BALANCE SHEET of..........................as at.......................19.......

Dr.	£	*Cr.*	£
To net liability under Life Assurance and Annuity transactions (as per summary statement provided in Fourth Schedule (A))		By Life Assurance and Annuity funds (as per balance sheet under Schedule 3) . .	
To surplus, if any . .		By deficiency, if any .	

(8) The principle upon which the distribution of profits among the shareholders and policy-holders is made.

(9) The results of the valuation showing the profits made and how appropriated and the basis of the distribution of bonuses.

In the case of **Accident Insurance Business**, the particulars required consist of—

A Statement of the estimated liability in respect of outstanding claims arising in the year of account and in the preceding year

or years computed as at the end of the year of account, with particulars as to the number and amount of the claims actually paid in the intervening period.

In connection with **Employers' Liability Insurance**, a statement is required of—

The estimated liability in respect of outstanding claims arising during each of the five years preceding the year of account and in such year, computed as at the end of the year in which the claims arose, with particulars as to the number and amount of the claims actually paid in the intervening period.

WINDING UP

Section 15 provides as follows—

The Court may order the winding up of an assurance company in accordance with the Companies (Consolidation) Act, 1908 (now Companies Act, 1929), and the provisions of that Act shall apply accordingly, subject, however, to the following modification—

The company may be ordered to be wound up on the petition of ten or more policy-holders owning policies of an aggregate value of not less than ten thousand pounds;

Provided that such a petition shall not be presented except by the leave of the Court, and leave shall not be granted until a prima facie case has been established to the satisfaction of the Court, and until security for costs for such amount as the Court may think reasonable has been given.

By Section 23—

Any assurance company which makes default in complying with any of the requirements of this Act shall be liable to a penalty not exceeding one hundred pounds, or, in the case of a continuing default, to a penalty not exceeding fifty pounds for every day during which the default continues, and every director, manager, or secretary, or other officer or agent of the company who is knowingly a party to the default shall be liable to a like penalty; and, if default continue for a period of three months after notice of default by the Board of Trade (which notice shall be published in one or more newspapers as the Board of Trade may, upon the application of one or more policy-holders or shareholders, direct), the default shall be a ground on which the Court may order the winding up of the company, in accordance with the Companies (Consolidation) Act, 1908 (now Companies Act, 1929).

Example. From the following particulars prepare Revenue Accounts and Balance Sheet of the Excelsior Life Insurance Co., Ltd., for the year ending 31st December, 19 . . .

	£
Mortgages on Property within the United Kingdom	9,350,000
Deposit with the Supreme Court—Securities	20,000
British Government Securities	4,900,000
Foreign Government Securities	5,100,000
Indian and Colonial Government Securities	6,550,000
Freehold and Leasehold Property (including the Company's offices at cost less depreciation)	1,950,000
Life Interests	1,125,000
Reversions	82,500

Freehold Ground Rents	£2,850,000
Leasehold Ground Rents	7,500
Loans on parochial and other public rates	12,250,000
Loans on company's policies within their surrender values	2,825,000
Shareholders' Capital (20,000 shares of £50 each fully paid)	1,000,000
Claims admitted or intimated, but not paid	125,500
Railway and other Debentures and Debenture Stocks	8,081,000
Railway, Gas, and Water Co. Stocks	4,350,000
Sundry Crs.	750
Cash on Deposit	200,000
Cash in hand and on current account	245,363
Annuities due and unpaid	3,000
Outstanding Premiums	223,500
Outstanding Dividends, Interest, and Rents	250,000
Furniture and Fixtures	22,950
Policy Stamps	4,000
Interest accrued but not payable	250,000
Agents' Balances	290,000
Investment Reserve Fund	1,000,000

(1) INDUSTRIAL BRANCH

Life Assurance Fund, 1st Jan., 19—	23,500,000
Claims under Policies, paid and outstanding	2,150,000
Fines, Fees, etc.	5,000
Surrenders, including surrenders of Bonus	135,000
Bonus to Superintendents and Agents	27,000
Premiums	4,355,000
Commission	1,215,000
Dividends and Bonus to Shareholders	450,000
Management Expenses	745,000
Interest, Dividends, and Rents . £1,220,400, less Tax	£71,190

(2) ORDINARY BRANCH

Life Assurance Fund, 1st Jan., 19..	31,450,000
Claims under policies paid and outstanding (after deduction of sums re-assured)—	
(a) by deaths	940,000
(b) by endowments matured	1,140,000
Assignment Fees, Fines, etc.	6,000
Surrenders, including surrenders of Bonus	315,000
Bonus in cash to Policy-holders	105,000
Premiums (after deduction of re-assurance premiums)	3,950,000
Commission	215,000
Management Expenses	95,000
Interest, Dividends and Rents . £1,435,080, less Tax	£83,713
Transfer to Investment Reserve Fund	205,000

(3) ANNUITY ACCOUNT

Amount of Fund at 1st Jan., 19..	715,000
Consideration for Annuities granted	115,000
Interest, Dividends, and Rents . £38,040, less Tax	£2,219
Annuities	95,000
Surrenders	600
Commission	1,135
Expenses of Management	1,100

REVENUE ACCOUNTS

For the Year ending 31st Dec., 19..

(1) INDUSTRIAL BRANCH

Life Assurance Fund at 1st Jan., 19..	£23,500,000	Claims under Policies, paid and outstanding	£2,150,000
Premiums	4,355,000	Surrenders, including surrenders of Bonus	135,000
Interest, Dividends, and Rents— Gross . . . £1,220,400 *Less* Tax . . 71,190	1,149,210	Bonus to Superintendents and Agents	27,000
Fines, Fees, etc.	5,000	Commission	1,215,000
		Management Expenses	745,000
		Bonus and Dividends to Shareholders	450,000
		Life Assurance Fund at end of year	24,287,210
	£29,009,210		£29,009,210

(2) ORDINARY BRANCH

Life Assurance Fund at 1st Jan., 19—	£31,450,000	Claims under Policies, paid and outstanding (less re-assurances)	
Premiums (less re-assurances)	3,950,000	(*a*) by deaths	£940,000
Interest, Dividends, and Rents— Gross . . . £1,435,080 *Less* Tax . . 83,713	1,351,367	(*b*) by endowments	1,140,000
Assignment Fees, Fines, etc.	6,000	Surrenders, including surrenders of Bonus	315,000
		Bonus in Cash to Policy-holders	105,000
		Commission	215,000
		Management Expenses	95,000
		Transfer to Investment Reserve Fund	205,000
		Life Assurance Fund at end of year	33,742,367
	£36,757,367		£36,757,367

(3) ANNUITY ACCOUNT

Amount of Fund at 1st Jan., 19..	£715,000	Annuities	£95,000
Consideration for Annuities granted	115,000	Surrenders	600
Interest, Dividends, and Rents— Gross . . . 38,040 *Less* Tax . . 2,219	35,821	Commission	1,135
		Management Expenses	1,100
		Amount of Fund at end of year	767,986
	£865,821		£865,821

BALANCE SHEET AS AT 31ST DEC., 19—

Liabilities		*Assets*	
Shareholders' Capital	£1,000,000	Mortgages on Property within the United Kingdom	£9,350,000
Life Assurance Funds—		Loans on Parochial and other Public Rates	12,250,000
Industrial Branch	24,287,210	Loans on Company's Policies within their surrender values	2,825,000
Ordinary Branch	33,742,367	Investments—	
Annuity Fund	767,986	Deposit with Supreme Court	20,000
Investment Reserve Fund	1,000,000	British Govt. Securities	4,900,000
Total Funds	60,797,563	Indian and Colonial Government Securities	6,550,000
Claims admitted or intimated but not paid	125,500	Foreign Government Securities	5,100,000
Annuities due and unpaid	3,000	Railway and other Debentures and Debenture Stocks—home and foreign	8,081,000
Sundry Creditors	750	Railway, Gas, and Water Co. Stocks	4,350,000
		Freehold Ground Rents	2,850,000
		Leasehold Ground Rents	7,500
		Freehold and Leasehold Property (including company's offices at cost less depreciation)	1,950,000
		Life Interests	1,125,000
		Reversions	82,500
		Agents' Balances	290,000
		Outstanding Premiums	223,500
		Outstanding Dividend, Interest, and Rents	250,000
		Interest accrued not payable	250,000
		Cash on deposit	200,000
		Cash in hand and on Current A/c	245,363
		Furniture and Fixtures	22,950
		Policy Stamps	4,000
	£60,926,813		£60,926,813

QUESTIONS ON CHAPTER XXI

1. Explain the characteristics of the two classes of life assurance companies —Mutual Companies and Proprietary Companies.

2. What is the "surrender value" of a life policy? Upon what is such value based?

3. What is an "insurable interest"? Explain by reference to examples. Give particulars of marine insurance legislation passed with reference to the necessity of such "interest" and state the object of passing the same.

4. Explain "Non-tariff" office; re-insurance "proposal form"; "slip."

5. Describe the procedure in effecting a marine insurance.

6. To what classes of insurance does the Assurance Companies Act, 1909, apply?

7. Give the substance of the provisions of the above Act regarding separate Deposits and separate Funds for each of the various classes of insurance, with particular reference to the cases where it is not obligatory to keep separate Deposits and separate Funds in respect of *each* and *every* class of business in one company.

8. What are the statutory provisions regarding the preparation of yearly accounts? Give an outline of Revenue Account in respect to life assurance.

9. At what periods are the profits ascertained and what information must be supplied at the quinquennial audit?

EXERCISE XXI

1. The Steadfast Assurance Co., Ltd., was registered in 19—, and during that year the whole of the Share Capital (consisting of 100,000 shares of £1 each) was paid up in full. Submit *pro forma* accounts for the year ended 31st December, in accordance with the provisions of the Assurance Companies Act, 1909; and point out wherein the form of the prescribed accounts varies from that usually employed by Companies registered under the Companies Acts. (*Royal Society of Arts, Accounting and Banking.*)

2. On 31st December, the balances of the General Ledger of the Holdfast Assurance Co. were as follows—

Funds as on 1st January, £1,557,060; Premium Account, £142,000; Claims Account, £70,050; Annuities Paid, £1,260; Commission Account, £6,032; Interest and Dividends Account, £51,000; Transfer Fees Account, £105; Surrenders Account, £11,201; Management Expenses Account, £18,670; Shareholders' Dividends Account, £2,500; Claims admitted but not paid Account, £7,200; Sundry Creditors Account, £3,980; Mortgages in the United Kingdom, £1,201,450; Loans on Policies, £50,060. Investments: Government Stocks, £204,000; British Railways, £138,200; House Property, £7,500; Agents' Balances, £12,200; Outstanding Premiums, £9,200; Outstanding Interest, £12,040; Cash at Bank, £16,982.

Prepare Revenue Account and Balance Sheet as on 31st December. (*London Chamber of Commerce.*)

3. Give a form (or forms) of ruling of a Cash Book, suitable for the record of the Receipts and Payments of a Life Assurance Co. with a large business and many agencies. (*Royal Society of Arts, Accounting and Banking.*)

4. Prepare, in the proper statutory form, the Revenue Account of the Minster Assurance Co., Ltd., for the year ended 31st December, from the following figures—

Claims: By death, £76,140; by maturity, £30,110. Premiums, £705,690. Transfer Fees, £129. Consideration for Annuities granted, £82,127. Annuities paid, £53,461. Bonuses paid in Cash, £2,416. Expense of Management, £31,920. Commission, £9,574. Interest, Dividends, and Rents, £97,840. Income Tax thereon, £5,710. Surrenders, £13,140. Bonuses in reduction of Premiums, £980. Dividends paid to Shareholders, £5,500. Amount of Life Assurance Fund at the beginning of the year, £1,521,000. (*London Chamber of Commerce.*)

5. The undermentioned figures have been extracted from the books of the Thamesmouth Life Assurance Co., Ltd., as on 31st December.

Amount of Life Assurance Fund at the beginning of the year	£1,650,540
Fines for revival of Policies	620
Expenses of Management	86,460
Amount of Life Assurance Fund at the end of the year	1,810,120

Prepare the Revenue Account of the Company in the form required by Statute, inserting imaginary figures for the remainder of the items you would expect to find in such an account. (*Royal Society of Arts, Accounting and Banking.*)

6. From the following figures relating to the Devonshire Life Assurance Co., compile its Revenue Account and Balance Sheet for the year ending 31st December, in the prescribed form. Shareholders' Capital £250,000 in 2,500 shares of £100 each, with £10 paid up on each.

Shareholders' undivided Profits	£33,786	Loans on Company's Policies	£90,152
Life Assurance Fund on 1st Jan., including paid-up Capital and undivided Profits	1,825,412	Freehold Ground Rents	1,218,310
Claims by death	93,067	Claims admitted, but not paid	5,846
„ matured by survivance	47,466	Claims announced—not admitted	22,846
Surrenders	8,636	Colonial Government Securities	147,259
Commission	8,224	Railway Shares, etc.	74,145
Premiums	134,872	House Property	105,292
Interest, Dividends, and Rents received	72,563	Agents' Balances outstanding	19,976
Management Expenses	25,860	Outstanding Interest and Rents receivable	16,968
Dividends to Shareholders	3,265	Outstanding Premiums—Head Office	1,465
Fines and Fees	201	Sundry Creditors	142
Income Tax	3,525	Cash in hand and at Bank	5,994
Written off Securities upon Re-valuation	17,089	Furniture and Fittings	2,857
Mortgages in United Kingdom	172,332		

(*National Union of Teachers.*)

7. How are the profits of a Life Assurance Co. ascertained? Give a specimen of the form of account usually employed, and illustrate your answer by means of imaginary figures. (*London Chamber of Commerce.*)

8. Are Assurance Companies under any statutory obligations with regard to their annual accounts?

From the undermentioned figures, prepare the Revenue Account of the East Coast Assurance Co., Ltd., for the year ended 31st December, and state the amount of the Life Assurance Fund as on that date.

Amount of Life Assurance Fund at the beginning of the year	£2,567,000	Interest and Dividends	£64,500
Surrenders	9,462	Income Tax paid thereon	3,762
Premiums	620,500	Annuities paid	21,640
Consideration for Annuities granted	38,450	Commission	10,700
Bonuses paid in cash	7,480	Fines for revival of Policies	120
Expenses of Management	18,750	Claims (by death)	12,500
		„ (by maturity)	27,800
		Dividends paid to Shareholders	10,450

(*London Chamber of Commerce.*)

9. The following are the Ledger Balances of a Life Assurance Society on 31st December, and include a year's transactions. The Assurance Fund is excluded—

Premiums received	£60,000	Sundry Creditors	£1,000
Interest, Dividends, and Rents (*Cr.*)	30,000	Mortgages	90,000
Claims paid and outstanding	60,000	Loans on Life Interests, Reversions, etc.	350,000
Surrendered Policies	5,000	Investments	400,000
Commission	2,000	Outstanding Premiums (good)	6,000
Management Expenses	5,000	„ Interest	1,000
Depreciation of Investments	7,000	Cash in hand and with Bankers	15,000
Capital	30,000		
Claims admitted, but not paid (*Cr.*)	11,000		

Prepare a Balance Sheet and Revenue Account in the form prescribed by the Assurance Companies Act, 1909, showing the Assurance Fund as on 31st December, and state by how much it has increased during the year. (*Chartered Accountants.*)

10. Prepare a Revenue Account and Balance Sheet from the following list of balances in the books of a Life Assurance Co.—

Assurance Fund at the beginning of the year	£3,600,000	Leasehold Ground Rents (Investments)	£6,000
Annuities Paid	12,500	Mortgages within the United Kingdom	800,000
Bonuses to Policy-holders	15,000	Mortgages on Rates	1,200,000
British Government Securities	190,000	Other Sums owing by the Company	1,200
Consideration for Annuities granted	14,000	Outstanding Premiums and Agents' Balances	56,000
Claims Admitted, but not paid	14,500	Outstanding Interest (receivable)	57,000
Claims Paid	280,000	Premiums	460,000
Commission Paid	27,000	Premises and Furniture	26,000
Cash at Bank	45,000	Reserve Fund	150,000
Expenses of Management	37,000	Rent Charges (Investments)	36,200
Indian and Colonial Government Securities	110,000	Railway and other Debentures	1,150,000
Interest and Rents received	130,000	Surrenders	42,000
Loans on Company's Policies	280,000		

(*Chartered Accountants.*)

11. From the following Trial Balance prepare Balance Sheet and Revenue Account of the Life Assurance Society.

Mortgages on Property within the United Kingdom	£400,000	Surrenders on Business within the United Kingdom	£20,000
Mortgages on Property out of the United Kingdom	50,000	Surrenders on Business outside the United Kingdom	1,000
Loans on Life Interests	100,000	Cash in hand	50,000
,, on Reversions	200,000	Claims admitted, but not paid *Cr.*	10,000
,, on Society's Policies within their surrender values	600,000	Claims on Business within the United Kingdom	200,000
Investments—		Claims on Business outside the United Kingdom	10,000
Municipal Securities, United Kingdom	500,000	Sundry Creditors	15,000
Indian and Colonial Government Securities	1,000,000	Amount of Life Insurance Fund at beginning of year	4,000,000
Freehold Ground Rents	800,000	Expenses of Management	20,000
Reversions	500,000	Premiums on Business within the United Kingdom	480,000
Outstanding Premiums	50,000	Premiums on Business outside the United Kingdom	6,000
Outstanding Interest, Dividends, and Rent	10,000		

[NOTE. £10,000 Indian and Colonial Government Securities have been deposited with the Government of the Cape of Good Hope in respect of Life Assurance business.] (*Incorporated Accountants.*)

REVISION EXERCISE XXI

1. Messrs. Gorgonzola & Co., of London, yesterday bought bills on Cape Town to the amount of £1,842 5s. 6d. Suggest some object or purpose intended by this operation. Describe it, with the use likely to be made of the Bills, and give the form such as you would suppose one of the Bills to have. (*Royal Society of Arts.*)

2. A. & Co., Lagos, consign to B & Co., Liverpool, for sale on joint adventure, native produce purchased at a cost of £22,000. This was paid for as to £5,000 in cash supplied by A & Co., and as to the balance by goods purchased and shipped by B & Co. at a cost of £15,500.

A & Co. disburse £1,831 5s. 6d. for Freight and Insurance, B & Co. incurring expenses of £150, plus an agreed proportion of their establishment charges, £293; and the net profit is then equally divided.

Prepare an account as it would appear in the Ledger of B & Co., showing the final settlement. (*Incorporated Accountants.*)

NOTE. The sale of native produce may be assumed to have realized 20 per cent on initial cost.

3. The following Ledger Accounts appear in the Trial Balance of a Company. State how you would deal with the items in preparing the Annual Accounts, and briefly comment on any points which would need special consideration.

(*a*) Goodwill Account; (*b*) Repairs Reserve Account; (*c*) Unclaimed Dividends Account; (*d*) Debenture Issue Expenses Account; (*e*) Preliminary Expenses Account; (*f*) Expenditure during the year on the Company's Leasehold Works Account; (*g*) Forfeited Shares Account (amount of cash received on forfeited shares). (*Royal Society of Arts, Accounting and Banking.*)

4. Describe clearly and illustrate the methods with which you would deal in books of account with each of the following—

(*a*) N Co. draw a Bill dated 5th January for £1,000 at six months; it is accepted by R, the Company agreeing to pay him cash seven days before the due date. The draft is discounted by D B for £925, and guaranteed by H for a commission of £50. The Bill is not met, but is renewed twice for periods of three months each. On each renewal, D B charges £50 and H £25. The third Bill is met and all liabilities discharged. The books of account are those of the Company.

(*b*) G C agrees to purchase at par from J P 1,000 fully-paid shares of £1 each in a Company, and pays on account three sums of £150 each on 1st December, 4th January, and 3rd February. On the last date, G C states he can pay no more, and requests that the shares be sold. J P sells them to W for 18s. each.

Show the transaction in J P's books and also in G C's.

(*c*) The Directors of a Company have forfeited 500 shares of £1 each, on which 10s. has been paid by B. They re-issue the shares to D, calling up 15s. per share.

Show the transaction in the Company's books. (*Incorporated Accountants.*)

5. Lead & Hall, Ltd. Balances 31st December—

	£	s.	d.		£	s.	d.
1,164 Ordinary Shares £7 each, £5 10s. per share called up	6,402	–	–	Prepaid on 32 Ordinary Shares	48	–	–
30 Vendors' Shares £7 each, fully paid	210	–	–	Stock, 1st Jan.	3,644	18	8
				Engine, Boiler, and Shafting, 1st Jan.	170	–	–

	£	s.	d.		£	s.	d.
Machinery, 1st Jan.	1,000	–	–	Travelling Expenses	255	18	–
Office Furniture, 1st Jan.	30	–	–	Stamps and Parcels Post	114	–	–
Trade Fixtures and Utensils, 1st Jan.	360	–	–	Carriage Outwards	319	13	11
Horse and Van, 1st Jan.	30	–	–	Trade Expenses	280	11	6
Chas. Johnson, Mortgage . . *Cr.*	3,500	–	–	Fuel	40	17	8
Directors' Remuneration	206	12	–	Sales	15,637	6	7
Bank Charges	28	6	–	Purchases	8,090	11	11
Freehold Factory	7,350	–	–	Rates, Taxes, and Insurance	317	1	2
Profit and Loss A/c (*Cr.*) 1st Jan.	584	5	6	Additions to Plant during year	386	2	9
Reserve Fund A/c	2,350	–	–	Repairs	52	12	2
Interest on Mortgage, &c.	155	15	2	Horse-keep	57	1	5
Bank	21	13	–	Commission, Travellers'	279	2	–
Creditors	1,142	5	9	Cottage Rent . *Cr.*	25	15	10
Discount Received	314	6	11	Debtors	2,569	7	7
" Allowed	257	16	11	Bills Receivable (Bad, write off)	5	–	–
Bad Debts	12	4	–	Cash	52	7	1
Wages	4,126	7	8				

The additions to Plant, £386 2s. 9d., consist of Machinery, £187 14s. 3d. Shafting, £117 1s. 2d.; Trade Fixtures, £40 9s. 10d.; New Horse, £40 17s. 6d.

Stock, 31st December, is £3,650 9s. 6d.

Write off Depreciation—

Freehold, £50; Machinery, 10%; Engine, Boiler, and Shafting, 12½%; Trade Fixtures, 10%; Office Furniture, 5%; Horse and Van, 20%. The additions during the year to be depreciated for six months.

Reserve Discount, 2½% on Creditors; 3½% on good Debtors; and Reserve for Bad Debts, £100.

Rates and Insurance prepaid, £78.

During the year the Company have manufactured Stationery goods, £123 9s., for their own use in the office, and they have a Stock of £25 on hand at 31st December.

The Prepaid Calls, £48, are entitled to interest 5% per annum (owing for current year).

The Manager is to have a bonus of 5% on the net profit.

The Vendors' Shares take one-fourth of any profit earned in excess of 10% on the Ordinary Capital called up.

Prepare Trading and Profit and Loss Account and Balance Sheet as at 31st December. (*West Riding of Yorkshire.*)

6. The Utopia Motor Works, Ltd., was registered and commenced business on 1st February, with a Nominal Capital of £200,000, divided into 5,000 Preference Shares of £10 each, and 150,000 Ordinary Shares of £1 each. Of the latter, 32,000 were allotted as fully paid to the vendors. The public subscribed for 4,500 Preference Shares, the whole of which were called up and paid for, and 22,640 Ordinary Shares on which 15s. per share had been called up before 31st January, when the Ledger Balances, in addition to the balances representing the above transactions, were as follows—

Loans from Sundry Persons	£930	Rates, Taxes, Gas, Water, and Insurance (including Rates for one year to 31st March next, £126; and Insurance for one year to 31st March next, £240)	£872
Plant (including additions during the year, £723)	36,803	Stock (1st Feb.)	14,685
Repairs Equalization Reserve	2,648	Bank Loan	3,400
Sales	107,866	Goodwill	22,000

Sundry Trade Debtors	£8,700	Freehold Land and Buildings	£26,782
Bills Payable	11,429	Loose Tools	8,001
Calls in Arrear (Ordinary Shares)	806	Bad Debt Reserve as on 1st February	807
Sundry Trade Creditors	18,176	Advertising	2,190
Preliminary Expenses	537	Office Expenses	203
Purchases (including Carriage)	57,833	Interest on Loans	161
Wages (Manufacturing)	53,129	Profit and Loss A/c: Credit balance brought forward, 1st February	37
Salaries and Commission	1,263	Cash at Bank and in hand	37
Directors' Fees	2,000		
Transfer Fees	17		
Bad Debts	1,106		
Repairs	2,182		

You are required to prepare Trading Account and Profit and Loss Account for the year ended 31st January, and a Balance Sheet as on that date, from the above balances, after making the following adjustments—

(*a*) Reserve for Interest on Loans accrued to 31st January, £26.

(*b*) Reserve for the proportion of Rates and Insurance paid in advance.

(*c*) The Stock on hand on 31st January was valued at £19,822.

(*d*) The Loose Tools on hand on 31st January were valued at £7,285.

(*e*) The directors decided (1) that two-thirds of the expenditure on advertising was to be carried forward in suspense; (2) that the whole of the expenditure on repairs was to be charged against the Repairs Reserve; (3) that the Reserve for Bad Debts was to be fixed at 4% on the value of the Trade Debtors; (4) that 5% depreciation was to be written off the value of the Plant as on 1st February; and (5) that £361 was to be written off for depreciation of Buildings. (*Royal Society of Arts.*)

7. The Engine & Motor Co., Ltd., has a nominal Capital of £100,000, divided into 75,000 Ordinary Shares of £1 each and 2,500 6% Cumulative Preference Shares of £10 each.

The books of the Company were balanced on 31st March, on which date a Trial Balance, containing the following balances, was extracted from the books—

Freehold Premises	£12,675	Purchases Returns	£1,675
Plant and Machinery	11,595	Sundry Creditors	12,805
Ordinary Share Capital (50,000 shares, fully called)	50,000	Bills Payable	8,765
Calls in Arrear	2,000	Manufacturing Wages	25,595
Preference Share Capital (2,500 shares, fully paid)	25,000	Repairs and Renewals of Plant	1,245
Stock-in-Trade, 1st April	14,665	Coal	2,765
Office Furniture	545	Gas and Water	475
Loose Tools, 1st April	3,125	Rates, Taxes, and Insurance	865
Patterns	3,155	Office Salaries	750
Patents	1,535	Trade Expenses	2,165
Profit and Loss A/c (Credit Balance, 1st April)	1,545	Bad Debts written off	615
Goodwill A/c	3,000	Reserve for Bad Debts, 1st Apr.	1,165
Sundry Debtors	31,215	Directors' Fees	300
Cash at Bank, Current A/c	985	Carriage	4,155
" " Deposit A/c	10,000	Interest on Bank Deposit A/c	45
" in hand	45	Audit Fee and Legal Expenses	205
Sales	107,015	General Expenses	945
" Returns	975	Discounts allowed to Debtors	1,235
Purchases	71,245	" received from Crs.	875
		Preliminary Expenses	350
		Travelling Expenses	465

Before closing the books, the following adjustments are necessary —

(1) A portion of the premises has been sublet, since 1st January, at £80 per annum, and the Rent due to date has not been paid or passed through the books.

(2) The Insurance unexpired amounts to £30.

(3) Eleven months only of the Office Salaries have been paid. One month's Salaries were owing on 31st March.

(4) Make the Reserve for Bad Debts equal to an amount representing 5% on the Sundry Debtors (excluding Sundry Debtors for rent).

(5) Write off the whole of the Preliminary Expenses.

(6) Write off the following depreciations—

(*a*) Plant and Machinery, 10%; (*b*) Office Furniture, 10%;
(*c*) Patterns, 15%; (*d*) Patents, 20%.

The Stock-in-Trade on 31st March was valued at £23,995 and the Loose Tools at £2,730.

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st March, and a Balance Sheet as on that date.

What dividend, if any, would you recommend the directors to propose, taking into consideration the fact that the dividend on the Preference Shares for the previous year ended 31st March, has not been paid? (*London Chamber of Commerce.*)

CHAPTER XXII

COST ACCOUNTS

The subject of Cost Accounts has become very important in recent years owing to the complex conditions under which modern commerce is carried on, and many volumes have been written on the subject. The keen competition which prevails renders it necessary that a business man should keep accurate and systematic records by means of which he can ascertain the actual cost of the goods he manufactures, or of the contracts he carries out. This he does by keeping Cost Accounts, which may be defined as a system of recording in accounts the materials used and labour employed in the manufacture of a certain commodity or on a particular job. The student should remember that the Cost Accounts are quite distinct from the Financial Accounts, although they are both written up from the same data. It may be further noted that in a proper system, the Financial Books and the Cost Books are kept in such a manner that they agree (at least approximately); the former showing the *total* Works' profit, and the latter the result of *each* of the operations at the Works.

CLASSES OF COST ACCOUNTS

Although the principles of Cost Accounts are applicable to all businesses, the details vary considerably according to the business or industry for which they are required. The following are the classes into which they are usually divided—

(1) **Terminal or Contract Cost Accounts**, applicable to undertakings where definite contracts are entered into, in which the cost is definite and terminating; e.g. Buildings, Ships, etc.

(2) **Operating or Working Cost Accounts.** These are used for railways, tramways, gas and water undertakings and the like.

(3) **Single or Output Cost Accounts**, suitable for breweries, collieries, quarries, mines and similar industries, in which there is a natural unit of cost, such as the barrel brewed, the ton raised, etc.

(4) **Multiple Cost Accounts.** This method is applicable to undertakings in which a number of products are involved bearing little or no apparent relation to each other in cost or selling price; e.g. cycles, hosiery, boots, furniture.

(5) **Process Cost Accounts** are used in businesses in which there are a number of departments and it is desired to know the cost of working each department.

OBJECTS OF COST ACCOUNTS

The primary object of Cost Accounts is to enable the manufacturer to ascertain the prime cost and total cost of the articles he manufactures or the contracts he undertakes. Other advantages which may accrue are enumerated below—

1. They show not only whether or not a profit has been made on the working of the business as a whole, but whether or not a profit has been earned on each department, or process, or job.
2. The selling price of goods can be fixed with greater certainty, in order to realize the desired percentage of profit.
3. Waste of time and stores can be detected and steps taken to prevent a recurrence of the leakages.
4. They provide valuable data for estimating, or tendering for important contracts; and for comparison of the results of different manufacturing periods.

Components of Cost. In order to arrive at the total cost the following factors must be taken into account: (1) Labour, (2) Materials, (3) Direct expenses of production and motive power, (4) Indirect expenses, viz. selling, distribution, and administration.

Prime Cost. The cost of labour (i.e. the amount of productive wages paid) plus the cost of raw materials, with all charges thereon, such as carriage inwards, freight, dock dues, etc., is called the **Prime Cost.**

Works Oncost. These expenses of production, or Works Overhead, consist of—

1. Rent, rates, taxes, and insurance of factory.
2. Motive power, fuel, gas, water, lighting, and heating.
3. Patent fees and royalties.
4. Non-productive wages of storekeepers, firemen, enginemen, time-keepers, factory clerks, superintendents, and managers.
5. Repairs, renewals, and depreciation of plant, machinery tools, land, and buildings, etc.

Total Cost. To arrive at the *total cost,* the works overhead and the indirect expenses must be added to the Prime Cost.

Indirect Expenses. Indirect expenses comprise—

1. Rent, rates, taxes, and insurance of office, shops, warehouse, showrooms, etc.
2. Lighting, heating, and water rate of same.
3. Travellers' salaries and commissions.
4. Salaries of assistants, counting-house staff, and manager, directors' fees.
5. Carriage outwards, packing materials, printing, stationery, advertising, etc.

6. Bad debts, discounts, etc.
7. Depreciation of furniture, fixtures, and fittings.
8. Interest on capital, loans and debentures, bank interest, etc.

Selling Price. When the total cost is ascertained, it only remains to add the percentage of profit required, in order to arrive at the selling price, which is compiled in the following manner—

Productive wages paid	£	....
Material consumed and charges thereon. .	£	....
Prime Cost	£	....
Add works overhead	£	....
Add indirect expenses	£	....
Total Cost	£	....
Add percentage of profit	£	....
Selling price	£	....

Note 1. Some accountants use the term " Flat Cost " to signify the cost of labour, material, and direct expenses of production.

Note 2. The indirect expenses are often spoken of as Fixed or Establishment Charges, the terms being synonymous.

Note 3. It is not infrequent to find Indirect Charges, or Overhead, divided into Works Expenses and Office Expenses.

A close study of the table on page 853 should convey a clear idea of the components of cost.

For the purposes of Cost Accounts it is necessary (1) to analyse the direct wages and materials used so that the proper amount can be allocated to each job or contract, and (2) to apportion the remaining expenses in such a manner that each job and contract bears its fair share.

LABOUR IN A COSTING SYSTEM

Labour in a costing system falls under two classes, namely—

(*a*) **Direct** labour, which can be measured and directly charged to a job, or order, or product.

(*b*) **Indirect** labour, which cannot be specifically charged to a job, but is apportionable on a logical plan.

Labour is measured by " time " and " money " and is a most important element of cost, and in any costing system adequate provision for control over expenditure on wages must obtain. Minute and accurate details of " time " and " money " expended must be made, and the following information is intended to convey

TABLE OF COMPONENTS OF COST

TOTAL COST									SELLING PRICE
	FACTORY COST				ESTABLISHMENT OVERHEAD				
PRIME COST	FACTORY OVERHEAD				SELLING		OFFICE		
	Material	Labour	Expenses		General	Sales Office	General	Administration	
Direct Material Direct Labour Direct Expenses	Indirect Material Scrap Material Supplies Loose Tools	Non-productive Wages of— Storekeepers Firemen Enginemen Time-keepers Factory Clerks Superintendents Managers, etc. Labour on defective, or experimental work	Factory— Rent Rates Taxes Insurance Motive power Fuel Gas Electricity Water Lighting Heating Repairs Renewals Depreciation of all classes of Plant, etc.		Advertising Samples Salesmen's Salaries and Expenses Travelling Carriage and Cartage Outward Warehouse Expenses	Rent Clerks' Salaries Telephone and Telegraph Postages, etc. Printing and Stationery Miscellaneous	Postages Salaries Rent Light and Heat Telephone and Telegraph Printing and Stationery Depreciation of Office Plant Office Supplies	Bad Debts Discounts Interest on Capital, Loans, Debentures, etc. Executive Expenses Directors' Fees	The selling price is determined as follows— Direct Materials Direct Wages + Overhead of— Factory Selling Office + % for Profit = Selling Price

a general view of modern and scientific methods employed which secure adequate " control " of this element of prime cost.

First then as to control of " time."

Post-war conditions have revolutionized the means of control of the " time " element expended on labour, and the somewhat unreliable method of the time book in the hands of the watchman has been superseded by the mechanical time check upon arrival and departure of employees, familiarly referred to as " clocking on " and " clocking off." In most up-to-date factories there is now installed, near the gate entrance, a mechanical time-recording clock.

Each employee is supplied with a " gate card " upon which is shown—

1. His or her official number.
2. His or her name.
3. Particulars of period, i.e. date of the week covered by the card.
4. Space provided for mechanical record of times of " arrival " and " departure " in the course of the week.
5. Space for extension of number of hours worked, etc.

(See specimen on page 855.)

On each " arrival " and " departure " the employee places the gate card in a slot below the pendulum of the clock, depresses a lever, and upon the card is stamped the actual time he makes the operation, which is, of course, either the time of arrival or departure.

On each side of the clock is a rack into which the employee's card is placed after stamping; one side is marked OUT, and the other side is marked IN. On entering the factory, the employee withdraws the card from the OUT rack, stamps it, and places it in the IN rack. The opposite operation takes place when leaving.

At the end of the pay week the wages clerk collects the gate cards, replacing them by a fresh set for use on the ensuing week.

The time worked by each employee is ascertained from the cards and extended in the appropriate columns; other particulars are filled in, and the final *net* sum payable to the employee is entered at the foot of the card.

The advantage of the mechanical time record is that the employees make their own record, and, once made, it cannot be tampered with or altered without challenge.

Not only is mechanical control of time applied in this way, but it is used for control of jobs. A workman when engaged on a " job " receives a job card upon which are all particulars of the work to be done. On the back of the same card there are spaces provided for recording the time. The time registered shows how long the employee was on the " job."

SPECIMEN TIME CARD

(Issued when mechanical time recording is in use)

NUMBER 128	NAME ______ WEEK ENDING ______			
	1	2	Ordinary Time	Overtime
TOTAL HOURS . .				

	Hours	Mins.	Rate	Amount
Ordinary . . .				
Overtime . . .				
Bonus				
GROSS WAGES				
DEDUCTIONS . H. U. Subs.				
A.M. Upright Letters. P.M. Horizontal Letters. TOTAL . . £				

METHODS OF PAYMENT OF WAGES

There are many methods of remuneration of labour, and it may be stated that methods applied are intended to react in the mutual interests of all concerned. Six methods are briefly touched on, and are as detailed below.

1. **Time Rates** are more generally paid on indirect labour, and obtain where work cannot be standardized or graded for piece rating. The system is unscientific because the time taken is not correlated to work done. The system is in operation where any kind of work requiring special skill and care are necessary.

Unless subject to very close supervision, " time rates " would seem an extravagant means of remuneration.

2. **Piece Rates** depend for their efficiency upon the exactness with which the rates are first fixed. The operation of this system is as follows—

A workman is given, say, 44 pieces of work to do. The time allotted is 44 hours (a normal working week of 5½ days of 8 hours a day). The rate of pay is fixed at 2s. 6d. per hour. Should the workman complete his task in 33 hours he will receive £5 10s. 0d., which yields to the workman a payment equal to time and a third. The advantage to the employer is in the economy of time and scope for adjusting piece rates on future work on a more economical basis.

3. **Bonus Systems.** Under these systems of payment of wages there is taken into consideration the ratio that " work done " bears to " time taken."

Two schemes under bonus methods of remuneration are chosen for consideration, namely, the Halsey and Rowan systems. Other schemes are employed, but they more or less approximate in effect the two methods explained below.

Halsey Bonus Scheme. The Halsey scheme provides for a bonus of 50 per cent on hours saved at the usual rates per hour. The scheme works out as under—

Forty-four hours were allotted for a piece of work at 2s. 6d. per hour. The work was completed in 33 hours, with the following result—

			£	s.	d.
Time allowed	44 hours				
„ taken	33 „	@ 2s. 6d. per hour . .	4	2	6
„ saved	11 hours				
Bonus will be earned on 11 × ½ = 5½ hrs. @ 2s. 6d.				13	9
		Total Wages . .	£4	16	3

Rowan Bonus Scheme. The Rowan scheme provides for a bonus of a percentage increase of pay equal to the percentage the hours saved bears to the hours allotted, which percentage will be added

to amount earned on work done. Applying the above example, the result yields the following—

	£	s.	d.
Time taken, 33 hours @ 2s. 6d. per hour . .	4	2	6
Bonus is arrived at on the following formula—			
$\dfrac{\text{Time saved 11 hours} \times 100}{\text{Time allotted 44 hours}}$.			
Reduction of above formula shows 25 per cent.			
Therefore, 25 per cent of £4 2s. 6d. will be added .	1	–	8
	£5	3	2

4. **Efficiency Pay.** Efficiency pay is granted to employees beyond a day wage for their completion of work in the minimum of time on skilled work. The rates of increase moves within the margin of 5 per cent and 40 per cent, and is applied according to efficiency beyond the 65 and reaching toward the 100 per cent standard.

5. **Priestman Plan.** The Priestman plan is a bonus on output. It moves according to the following circumstances—

A standard output is agreed upon by the management and the employees' representatives. Now, according to output beyond the standard, a bonus "at the rate of increase" is granted to the employees.

6. **Profit-sharing Schemes.** Profit sharing is applied with the object of developing mutual interests as between employer and employed.

PAYING WAGES

In firms of any magnitude this operation requires very skilful handling. First, a pay roll has to be prepared, which roll is made up from the gross time records. At the foot of the pay roll (or pay rolls) a coin summary showing the amounts required under each denomination is required, i.e. how many £1 notes, 10s. notes, silver coins, etc. For speed and accuracy in compiling the pay sheets a Wages Adding Machine should be employed. A Wages Abstract is appended for examination by students, as it is the document from which the Pay Sheet is finally prepared.

WAGES ABSTRACT

Contract 1		Contract 2		Contract 3		Contract 4		Contract 5		Expenses	Summary	
No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount		£	
											1	
											2	
											etc.	

JOB CARD.—PIECEWORK

Job No.________________ Man's No. _________ Name _________________

Description of Work______________________________ Reference________

Date and Time Commenced __________________ Foreman's Initials ______

Date and Time Finished ______________________ ,, ,, ...

Week Ending	M.	T.	W.	T.	F.	S.	Total	Remarks

TIME SHEET

Workman's Name___________________________ Date_________________

Workman's No. ____________ Occupation____________

Job No.	Name of Customer	Particulars of Work done	Hours Time	Hours O'time	Rate	Amount £	Amount s.	Amount d.

(Signed) _________________________ Foreman.

These sheets, after being used for the writing up of the Wages Book, are eventually sent to the Cost Office, and the amounts are summarized and posted to the jobs in the Cost Ledger.

MATERIAL IN A COSTING SYSTEM

Control of " stores " is all important in a costing system, and to this end the movements IN and OUT of raw material, supplies, etc., must be subject to the severest possible means of check. A summary of the ways by means of which this control is effected is given below under brief explanations of the use to which various cards and books are put in the costing system.

1. **Store Record Card.** The Store Record Card is provided with rulings to show a full description of the material; the bin number; particulars of Order No., Suppliers, Price, Quantity; particulars of Date, Requisition No., Quantities of Material " IN " and " OUT "; and, finally, a balance column, which should show the amount of

material in store on any given date. The card also contains rulings to indicate the "minimum" and "maximum" quantities of the material stored. Stores Record Cards are kept in the cost department. A specimen is appended.

STORES RECORD CARD

Bin No.	STORES RECORD CARD Description of Material—	Reg. No. Date Minimum Maximum

RECEIVED FROM MERCHANTS				(a) ISSUED TO WORKS ORDERS, ETC. (b) SURPLUS ON REQUISITION RETURNED				BALANCE
Order No.	Suppliers	Price	Quantity	Date	Regn. No.	(a)	(b)	

BIN CARD

BRIEF DESCRIPTION OF MATERIAL— BIN NO.

Received		Issued								
Date	Quantity or Weight	Date	Quantity	Balance	Date	Quantity	Balance	Date	Quantity	Balance

2. **Bin Card.** Bin cards are specially ruled to show particulars of materials received into or withdrawn from stores. The storekeeper responsible for control of stores attaches a bin card to each bin,

locker, shelf, or receptacle for materials. On every occasion when stores are received or withdrawn the storekeeper will carefully record in appropriate columns particulars relating to such movements of material under his control. (Specimen on page 859.)

3. Stores Requisition. In a well-organized manufactory, etc., a storekeeper would be authorized not to issue materials from store without special authorization. A Stores Requisition is a card (or document) when duly filled up, which is handed to the storekeeper who is sanctioned thereby to issue stores. Usually the stores are requisitioned for use on a specific job, and the stores requisition will contain a reference to the Works Order upon which the material is to be used. A ruling of such a form is appended.

STORES REQUISITION

*No.*_______

STORES REQUISITION

*Job No.*_______

Particulars:

STORES REQUISITION

*Stores Requisition No.*________________________19___

Quantity	Description	Rate	Fo.
	JOB NO.		
*Signed*______________	*Man's No.*______ £		

4. Stores Received Book.
5. Stores Issued Book.
6. Stores Ledger.

} Specimens on pages 861–862.

The above three books are designed to contain complete details of all goods received and disposed of respectively; the Stores Ledger, containing in summarized form particulars both of goods received and issued. The above three books are analogous to the "Purchases," "Sales," and "Ledger" with which the student is familiar. The functions are similar; the Stores Received and Stores Issued Books being subsidiary to the Stores Ledger, which contains the financial record of stores; the balance of which account should indicate the actual value of stores in hand at any given date.

Material purchased for a particular job can be charged direct to that job in the cost ledger from the invoice; all other purchases will be debited to stores and charged to their respective jobs through the medium of the requisitions. A suitable form of Purchase Analysis Book is given on page 863.

STORES RECEIVED BOOK

Date	Order No.	From Whom	Particulars	Stores Ledger Folio	Quantity				Rate	Amount	Remarks
					No.	cwts.	qrs.	lbs.			

STORES ISSUED BOOK

Date	Requi-sition No.	Particulars	To Whom or for What Purpose	Stores Ledger Folio	Quantity				Rate	Amount	Remarks
					No.	cwts.	qrs.	lbs.			

STORES LEDGER

(Name of Material or Article).................................

Dr.			Receipts										Issues						Cr.
Date	S.R. Book Folio.	From Whom	Quantity				Rate	Amount	Date	S.I. Book Folio	To Whom	Quantity				Rate	Amount		
			No.	cwts.	qrs.	lbs.						No.	cwts.	qrs.	lbs.				

Note 1. This Ledger would be posted up daily from the Stores Received Book and the Stores Issued Book.

Note 2. The balance of the two sides should show the quantity of each article in stock at any time, and thus facilitate and check the process of stock taking. Due allowance must, of course, be made for shrinkage and wastage.

PURCHASE ANALYSIS BOOK

Date	Name	No. of Invoice	Ledger Folio	Amount	Goods and Materials purchased direct			Goods and Materials purchased for Stock.		Other analytical columns	Other analytical columns
					No. of job	Cost Led. folio	Amount	Stores Led. folio	Amount		

The totals of the various columns of the purchase analysis will be posted in the ordinary way to the debit of the respective nominal accounts, the account recording "Materials purchased direct" agreeing with the amount charged in the cost accounts to customers, or to jobs on hand that will eventually be charged to customers.

All expenses chargeable direct to jobs will also be debited in the cost ledger to the proper accounts, and the total direct expenses debited to a direct expenses account in the financial books from the Cash Book, Petty Cash Book, etc.

7. **Materials Abstract.** A Materials Abstract is prepared to show the allocations of stores issued, and is in the nature of the complete analysis of material requisitioned. A specimen is appended.

MATERIALS ABSTRACT

(*A*) REQUISITIONED TO CONTRACTS

No. 1		No. 2		No. 3		No. 4		No. 5	
Req. No.	Amount	Req. No.	Amount	Req. No.	Amount	Req. No.	Amount	Req. No.	Amount

(*B*) REQUISITIONED FOR FACTORY AND OFFICES

Plant		Loose Tools		Sundries	
Req. No.	Amount	Req. No.	Amount	Reg. No.	Amount

(*C*) SUMMARY

Nos.	*(A) Contracts*	*(B) Factory and Offices*	
1	£	Plant . . .	£
2	£	Loose Tools . .	£
3	£	Sundries . . .	£
4	£		
5	£		
		TOTAL REQUISITIONED—	
		(*A*) Contracts £....	
		(*B*) Factory £....	£.....

((*A*), (*B*), and (*C*) should follow in ONE line.)

8. **Cost Ledger.** This ledger is prepared with a view to bringing into one view the various components of cost incurred in the carrying out of a job, contract, etc. It is compiled from data supplied by the following statistical and other books—

(*a*) Abstract of Wages.
(*b*) Abstract of Materials.
(*c*) Purchases Journal.
(*d*) Cash Book.

It is from the Cost Ledger that an attempt at reconciliation with financial accounts is made. (See page 867 for specimen of Cost Ledger.)

OVERHEAD

"Overhead" is a technical term used in Cost Accounts to denote all expenditure which cannot be directly charged to the articles manufactured or work done.

So far only the allocation of wages and materials has been dealt with, but it is clear that *all* the expenses of the business not directly charged to the cost accounts must in some way or other be apportioned in an equitable manner to the various orders executed. The method of distributing this expenditure has given rise to much controversy, and many systems are in vogue, among which the following may be mentioned—

1. **Fixing One Percentage to Cover all Direct and Indirect Expenditure.** This is inaccurate and unscientific, for the reason that by it the work requiring the use of expensive machinery would bear precisely the same proportion of expense as work performed with a cheap tool.

2. **The "Machine-rate" Method.** This signifies a charge of so much per hour for each tool or machine used, in addition to the cost of wages and material consumed.

3. **The "Hourly-burden" Plan.** By this method the total expenses are ascertained and divided over the number of hours worked. The weakness of this system is that no discrimination is made between expensive and cheap machinery, and, therefore, it is accurate only when the class of machinery used is uniform.

4. **Percentage on Wages.** Fairly accurate results may be made by this method if the work and the conditions do not vary much, but it does not discriminate between expensive and cheap machinery, nor is it equitable where wages form a small proportion of the total cost.

5. **Varying Rates for Different Items of Expenditure.** By this method items such as rent, rates, taxes, lighting, heating, etc., are apportioned according to the floor space occupied by each shop. Gas, water, electricity can be measured by means of separate meters.

for each shop, and power may be charged at a rate per horse-power of each machine.

6. **Charging Factory Overhead and General Overhead Separately.** When this method is used, the amounts of the manufacturing expenses (factory overhead) and the administration and selling expenses (general overhead) are ascertained and dealt with separately. With regard to the Factory Overhead, the question to be decided is, On what basis shall the calculation be made? Shall it be on the cost of labour only? materials only? or on labour and materials? Most accountants are of opinion that the calculation should be based on the cost of *labour* only, as this is a more constant factor than is material. In the first instance the charges will have to be an estimate based on the experience of similar businesses, but at the end of the first year's trading the Profit and Loss Account will supply valuable information. Suppose, for instance, that the Trading and Profit and Loss Account shows Material Consumed, £20,000; Productive Wages, £9,000; Factory Expenses, £3,600; Administration Expenses, £4,890. From these figures it is found that the Works Cost is—

	£
Materials consumed	20,000
Productive Wages	9,000
Prime Cost	29,000
Factory Overhead	3,600
Works Cost	£32,600

so that the Factory Overhead is 40 per cent of the Productive Wages. General Overhead, which is calculated on Works Cost, is 15 per cent, and future calculations would be made on this basis, e.g.

Materials consumed	£ ....
Productive Wages	£ ....
Prime Cost	£ ....
Add Factory Overhead 40 per cent on Wages . .	£ ....
Factory Cost	£ ....
Add General Overhead 15 per cent on Factory Cost .	£ ....
Tota Cost	£ ....

When a job is completed and all the time sheets and requisition notes have been entered in the Cost Ledger (a ruling of which is given), the Overhead is added, also the percentage for profit, and the entry is then passed through the Sales Journal, and debited to the Customer's Account in the Sales Ledger.

COST LEDGER

Job No. ____________

Period ending	Debits					Credits		Prime Cost	Establishment Charges	Total Cost
	Stores	Special Materials	Wages	Direct Expenses	Total	Stores Returned	Total			

Percentages on Returns. It may be pointed out that in adding percentages for profits the percentages should be based on returns. For instance, on an article costing £10 and sold at £13 6s. 8d., there is a profit *on cost* of $33\frac{1}{3}$ per cent, but *on the return* it is only 25 per cent. The following table may be of service for calculating profits.

Add to	cost	50	per cent	to give	$33\frac{1}{3}$	per cent	*on*	*return*
,,	,,	$33\frac{1}{3}$	,,	,,	25	,,	,,	
,,	,,	25	,,	,,	20	,,	,,	
,,	,,	20	,,	,,	$16\frac{2}{3}$	,,	,,	
,,	,,	$12\frac{1}{2}$	,,	,,	$11\frac{1}{9}$	,,	,,	
,,	,,	10	,,	,,	$9\frac{1}{11}$	,,	,,	

Formula for Finding Percentage Required.

$$\frac{\text{Percentage Required} \times 100}{100 - \text{Percentage Required}}$$

Example. The percentage required on return is 20 per cent.

$$\frac{20 \times 100}{100 - 20} = \frac{\cancel{20} \times \overset{25}{\cancel{100}}}{\underset{\cancel{4}}{\cancel{80}}} = 25 \text{ per cent to add to cost price.}$$

Units of Output or Earning. The following units of output or earning are generally in use—

Breweries—per barrel of beer brewed.

Brickworks—per 1,000 bricks made.

Collieries—per saleable ton of coal raised.

Mines—per ton of ore raised.

Hotels—per visitor per day.

Gasworks—per ton of coal carbonized, and per 1,000 cubic feet of gas sold.

Waterworks—per 1,000 gallons of water consumed.

Electric Light Works—per ton of coal used, and per 100 Board of Trade units of electricity sold.

Railways—per ton carried, and per train-mile run.

Trading Businesses with a miscellaneous output—per £100 of sales.

Experimental Cost Sheets. Fabric manufacturers when experimenting upon "new" lines usually draw up what are known as experimental cost sheets, which furnish the management with details of the cost of half-a-dozen fabrics. Apart from the details of cost of manufacture, these sheets contain specifications as to measurements, class of material, buttons, style of cut, etc. In fact, an experimental cost sheet will bear a significant number, which will be used upon all future work on the fabric should the initial result justify the management in putting it before their wholesale buyers.

COST OF PRODUCTION OF A STANDARD PRODUCT (say) BESSEMER STEEL

	January, 19.. Output: 1,000 Tons						
	Expenditure			Cost per Ton			Percentage on Selling Price
	£	s.	d.	£	s.	d.	
Materials—							
Purchased direct (particulars from Analysis Purchase Book)	525	–	–		10	6	10·50
Requisitions of Stores (particulars from Stores Requisition Book)	950	–	–		19	–	19·00
Labour—							
Operation No. 1	250	–	–		5	–	5·00
(Particulars from Wages Book analysed according to the various operations of labour) " " 2	304	3	4		6	1	6·08
" " 3	325	–	–		6	6	6·50
" " 4	287	10	–		5	9	5·75
" " 5	337	10	–		6	9	6·75
" " 6	304	3	4		6	1	6·08
" " 7	216	13	4		4	4	4·34
PRIME COST	£3,500	–	–	£3	10	–	70·00
Direct Expenses—							
(1) Rent, Rates, Taxes, and Insurance of Works	25	–	–			6	0·50
(2) Motive Power, Fuel, Gas, Water, Lighting	275	–	–		5	6	5·50
(3) Royalty	50	–	–		1	–	1·00
(4) Non-productive Wages and Salaries	150	–	–		3	–	3·00
(5) Repairs, Depreciation, etc., of Plant and Machinery	100	–	–		2	–	2·00
(6) Interest on Capital Outlay on Plant, etc.	25	–	–			6	0·50
	£4,125	–	–	4	2	6	82·50
Indirect Expenses—							
(1) Rent, Rates, Insurance, etc., of Offices, Warehouses	12	10	–			3	0·25
(2) Lighting, Heating, Water	8	6	8			2	0·16
(3) Salaries of Office Staff, Manager	250	–	–		5	–	5·00
(4) Bad Debts and Discounts	50	–	–		1	–	1·00
(5) Depreciation of Fixtures, etc.	4	3	4			1	·09
(6) Interest on Capital, Loans	50	–	–		1	–	1·00
TOTAL COST	£4,500	–	–	£4	10	–	90·00
Percentage of Profit, 11⅑% (which gives a 10% profit on the Selling Price)					10	–	10·00
SELLING PRICE PER TON				£5	–	–	100·00

The Wages Book should be so arranged that the workmen engaged on similar operations of labour are grouped together, so that the total amount spent on each operation of labour can be extended in a separate column, as this information is necessary in preparing the Cost Accounts.

NOTE. The 11⅑ per cent added to cost in order to yield 10 per cent on return is arrived at by formula (see page 868), and is as follows—

$$\frac{10 \times 100}{100 - 10} = \frac{\cancel{10} \times 100}{\underset{9}{\cancel{90}}} = 11\tfrac{1}{9}\% = \text{percentage required.}$$

COLLIERY COST SHEET

Item of Expenditure	Jan., 19.. 12,000 Tons Cost per ton		Amount			Feb., 19.. 11,500 Tons Cost per ton		Amount		
	s.	d.	£	s.	d.	s.	d	£	s.	d.
WAGES—										
Colliers	2	1·61	1,280	5	6	2	2·03	1,247	5	2
Underground		11·20	560	2	5		11·39	545	16	4
Surface		5·98	299	4	7		6·07	290	17	8
WORKING EXPENSES—										
Timber		2·39	119	10	8		2·63	125	14	7
Stores		1·07	53	6	5		1·19	57	2	8
Royalties		6·00	300	–	–		6·00	287	10	–
Horse and Stable Expenses		1·51	75	8	9		1·47	70	9	10
Repairs and Renewals		1·67	83	6	3		1·67	79	15	8
Depreciation		2·91	145	14	7		2·90	139	2	9
ESTABLISHMENT CHARGES—										
Rent, Rates, Taxes, etc.		1·69	84	10	6		1·74	83	9	5
Salaries and Management		3·50	175	–	–		3·65	175	–	–
Bad Debts and Discounts		·88	44	1	5		·86	41	5	6
Sundry Expenses		·70	35	2	10		·68	32	9	7
Total Cost	5	5·11	£3,255	13	11	5	6·28	£3,175	19	2

RECONCILIATION WITH FINANCIAL ACCOUNTS

Reconciliation is attempted by the introduction of an Adjustment Account termed "Cost Ledger Account." To this account are posted periodical totals (debit and credit), the balance of which account should agree with the balance of the Cost Ledger.

Example.

Dr. COST LEDGER ACCOUNT *Cr.*

Dr.	Cr.
To Materials Used	By Stores Returned
,, Materials Purchased	,, Plant Returned
,, Plant out on Contracts	,, Work in Progress c/d
,, Wages	
,, Expenses (direct)	
,, Overhead Details	

If the costing records are attempted on the double-entry principle there should be an approximation to complete reconciliation.

EXERCISE XXII

1. From the following particulars make out monthly Cost Sheets of a Coke and By-Product Company—

	April	May	June
Coal used . . .	6,900 ton	7,200 ton	7,300 ton
Coke made . . .	4,700 „	4,725 „	4,775 „
Tar made . . .	325 „	340 „	325 „
Sulphate of ammonia made . . .	90 „	100 „	95 „
Sulphuric acid used .	75 „	95 „	90 „
Benzole made . .	12,300 gal.	13,900 gal.	14,000 gal.
Creosote oil used . .	7 ton	8 ton	8 ton
Wages . . .	£550	£560	£565
Stores, etc. . . .	55	75	75

The prices of the above materials and products were: Coal, 8s. per ton; Coke, 14s. 6d. per ton; Tar, 13s. 3d. per ton; Sulphate, £10 15s. per ton; Sulphuric acid, £2 5s. per ton; Benzole, 3½d. per gal.; Creosote oil, 3½d. per gal. (1 ton = 220 gal.)

Show the percentage (to two places of decimals) of Coke made, of Tar made, and of Sulphate of ammonia made to the weight of coal used. (*Chartered Accountants.*)

2. Classify the various distinct methods of costing. Explain the peculiar characteristics of each, and state to what particular class of undertaking each is applicable. (*Chartered Accountants.*)

3. Smithson & Company, in addition to a general engineering and repairing business, are manufacturers of pumps of four standard sizes, which they make and sell in large quantities. They desire to inaugurate a system which will show them the cost of production of each standard size of pump. Set out briefly your suggestions as to how this could be accomplished. (*Chartered Accountants.*)

4. Draw up a form of weekly or monthly Cost Sheet adapted to one *only* of the following industries, and give specimen entries illustrating its working: (*a*) Colliery, (*b*) Cotton-spinning Mill, (*c*) Iron Foundry, (*d*) Brewery. (*Chartered Accountants.*)

5. State briefly the principles governing Cost Accounts, and give a form of Cost Sheet suitable for a manufacturing business, entering not less than six items of cost relating thereto. (*Chartered Accountants.*)

6. State the unit or units of output or earning generally in use for preparation of Cost Accounts of the following: (1) Breweries, (2) Brickworks, (3) Collieries, (4) Electric Light Works, (5) Gas Works, (6) Iron and Steel Manufacturers, (7) Tramways, (8) Water Works. (*Chartered Accountants.*)

7. When auditing the accounts of a large factory where wages are paid by piece-work, you find on reference to the Company's statistical results the following—

A. Dept.	Year (1)	% on Output	Year (2)	% on Output
Material . .	10,500	10·50	11,500	11·50
Wages . .	5,250	5·25	7,250	7·25
Packing . .	1,050	1·05	1,000	1·00
Supervision .	525	·52	500	·50

What are your conclusions? (*Incorporated Accountants.*)

8. Prepare a chart showing the output of electricity and coal consumption of an Electric Lighting Company. (*Incorporated Accountants.*)

9. What are the principal reasons for Cost Accounts? What tests would you apply to Cost Accounts so as to ensure their accuracy as far as possible? (*Incorporated Accountants.*)

10. A Soap Manufacturing Company keep their Cost Accounts on the card index system. What are the advantages of the system for this purpose? Give an illustration of a card and state what precautions are necessary where the raw material used is subject to violent fluctuations. (*Incorporated Accountants.*)

11. Explain the information and advantages to be obtained by a careful tabulation of comparative statistics and percentages in relation to: (*a*) Gross Profit, (*b*) Wages, (*c*) Stock, (*d*) Material, (*e*) Costs of Distribution, (*f*) the detection of fraud in accounts. (*Incorporated Accountants.*)

12. A firm of Constructional Engineers carry on a business which is almost entirely done under contracts. Most of the material required is purchased specially for these contracts, but quantities of general materials are also purchased for Stock. They desire to be kept advised of the progress of the cost and the ultimate profit or loss on each contract as completed. State the general outlines of a system of Cost Accounts you would recommend for this purpose. (*Chartered Accountants.*)

13. State the theory of Overhead Charges or Oncost, saying how they are determined, and how applied. (*Chartered Accountants.*)

14. Describe a system of Cost Accounts suitable for a Builder and Contractor, detailing the nature and the use of the books you would recommend, and showing how the Cost Accounts may be co-ordinated with the Commercial Accounts. (*Chartered Accountants.*)

15. In the Nominal Ledger of a firm of contractors you find the following account—

Dr. COST BOOK ACCOUNT *Cr.*

		£			£
Jan. 1	To Balance brought down	3,000	Dec. 31	By Contracts and Charges	45,000
Dec. 31	" Goods and Materials from Stock	23,000		" Materials returned to stock	2,500
	" Wages	16,000		" Balance carried down	3,200
	" Sundry Cash payments	200			
	" Transfer to P. & L. Account	8,500			
		£50,700			£50,700
Jan. 1	To Balance brought down	£3,200			

Explain fully the meaning and use of this account. (*Chartered Accountants.*)

16. The Northern Foundry Co., Ltd., are manufacturers of steel castings. The Company has instituted a system of costing; and you are requested to advise as to the basis on which standing charges and established expenses should be charged. The manufacturers of the Company vary greatly, some of the castings being of considerable size and weight, and others very small, but requiring intricate workmanship.

The points you have to deal with are—

(1) Foremen's wages, and wages of labourers and others not directly charged,

(2) Rent and Rates.

(3) Travellers' salaries and expenses, and expenses of the forwarding department.

(4) General office expenses.

(5) Salaries of manager and managing director.

What would you advise? (*Chartered Accountants.*)

17. What do you understand by the term "Overhead"? Upon what basis or bases do you consider it should be calculated? Give your reasons. (*Chartered Accountants.*)

18. What advantages and disadvantages do you see in presenting along with a Revenue Account a tabular system of percentages? Draw up an imaginary account of this kind for 3 years in connexion with any business with which you are familiar, and make a Report stating the conclusions you have come to from the figures. Point out fallacies that may arise from a study of percentages alone. (*Incorporated Accountants.*)

19. Explain five methods of remuneration of workmen in vogue in manufacturing industries. Discuss freely the merits and/or demerits of the methods. Also, state which method you more particularly favour, giving reasons in support of your preference.

20. Outline the means of control of "time" obtaining in most factories, and state one reason which—perhaps above many others—justifies the adoption of the system of time control you will have explained.

21. Enumerate the " cards " and " books " used in a costing system for control over material or stores, and briefly explain the purpose served by each card and book mentioned.

22. Sketch the form of a Wages Abstract and explain the purpose it serves in a costing system.

23. Draw up a chart which will show the way in which the elements of cost are compiled from prime to total cost.

REVISION EXERCISE XXII

1. " The Lord Mayor yesterday remitted to Madras by telegraph £2,000 as a first instalment on account of the Indian Famine Fund." Explain by what expedients the transfer is effected, and give the entries in the London and Madras books respectively. (*Royal Society of Arts.*)

2. Charles Richardson & Co., of London, send upon consignment to William Robinson & Co., of Alexandria, on 1st February, for sale on their account, 74 cases of Bradford goods invoiced *pro forma* at £100 per case. A commission of 2½ per cent is payable on sales. Charles Richardson & Co. pay Freight £35, Insurance £12, and draw on William Robinson & Co. a two months' bill at sight for £1,000. William Robinson & Co. pay landing charges £7, Insurance and Freight £20, and accept the bill on 21st February and obtain delivery of goods; they sell 30 cases at £120 each, 24 cases at £125 each, and 20 cases at £130 each. Make out an Account Sales and enter up the Consignment Account in Charles Richardson & Co.'s and in William Robinson & Co.'s books. (*Incorporated Accountants.*)

3. A, B, C, are partners in a business, dividing profits equally. Their balance sheet at 31st December is as follows—

	£		£
Sundry Creditors	3,800	Sundry Debtors	9,700
Bills Payable	900	Stock	2,400
Capital Accounts—		Furniture	380
A	6,000	Cash at Bank	620
B	3,000	C, Drawing A/c	3,000
C	1,000		
Drawing Accounts—			
A	700		
B	700		
	£16,100		£16,100

C is insolvent and unable to contribute anything; the partnership is consequently dissolved, and the Sundry Debtors' Stock and Furniture realize £10,380. Draw up a final Balance Sheet showing the position of each partner's Capital Account. There is no agreement between the parties. (*Incorporated Accountants.*)

4. A Limited Company is formed to buy a property from B for £50,000—£25,000 in cash and £25,000 in shares. The Capital is £75,000 in 75,000 shares of £1 each. 50,000 shares are issued, 5s. payable on application, 5s. on allotment, 5s. on first call, and 5s. on final call.

The purchase money, £25,000, is paid, and the consideration shares are allotted to B.

The preliminary expenses, £2,200, are paid by the Company. Shareholders holding 820 shares fail to pay the final call, and the shares are forfeited under the Articles of Association.

State the Cash Book, Journal and Ledger entries necessary to record the facts. (*Incorporated Accountants.*)

5. Briefly explain—

(*a*) Single Cost.
(*b*) Departmental Costs.
(*c*) Process Costing.
(*d*) Job Costs.
(*e*) Terminal Costs.
(*f*) Multiple Costs.
(*g*) Operating Costs.

Also, prepare a Cost Sheet, showing elements of cost in the manufacture of a commodity.

6. THE DRAGON WORKS, LTD., 31st March.

	£	s.	d.		£	s.	d.
Dragon Works Freehold	6,000	–	–	Work in progress, 1st April	3,520	16	10
Gas and Heating Apparatus	420	–	–	Bank	1,240	4	2
Plant, 1st April	3,000	–	–	Loan Interest to 30th Sept. last	60	–	–
Do. bought this year	600	–	–	Carriage	729	9	1
Electric Power Installation	180	–	–	Rates and Taxes	186	4	4
Creditors	962	16	3	Ord. Shares, 20,000 £1 Shares, 15s. paid up	15,000	–	–
Loose Tools	1,240	–	–	Pref. Dividend to 30th Sept. last	300	–	–
Belting	160	–	–	Debenture Interest	180	–	–
Patterns and Drawings	1,160	–	–	Wages	4,258	4	9
Goodwill	4,000	–	–	Purchases	6,724	8	3
Stock, 1st April	4,809	15	3	Discount Received	132	5	–
Cash	26	10	–	Salaries	972	10	–
Patents	500	–	–	Reserve Fund A/c	1,000	–	–
Loan at 6% . *Cr.*	2,000	–	–	Advertising	418	5	8
Office Furniture	80	–	–	Trade Expenses	702	3	5
Debtors	9,447	13	4	Repairs	637	6	2
Pref. Shares, 10,000 £1 6% Cumulative	10,000	–	–	Travelling Expenses	426	10	–
Volt and Ampere Co., Ltd., 100 £5 Ord. Shares, cost	600	–	–	Debentures 4½%	8,000	–	–
Preliminary Expenses	450	–	–	Sales	16,052	7	1
Profit and Loss A/c, 1st April . *Cr.*	100	–	–	Discount Allowed	342	7	1
				Volt and Ampere Co., Ltd., Shares, Dividend A/c	125	–	–

Stock, 31st March, £6,404 5s. 9d.; and Work in Progress, £3,571 13s.

Owing, 31st March: Carriage Accounts for March, £75; Rates, £30; Expenses Account, £20; Half-year's Loan Interest, less tax at 1s.; Half-year's Debenture Interest, less tax at 1s.

The Company having paid Income Tax up to 5th April next, credit the Rates and Taxes Account with tax at 1s. in £ on Debenture and Loan Interest owing and on Half-year's Pref. Dividend to 31st March next.

Provide Discount Reserve on Debtors, £300. Write off Depreciation at the following rates per cent per annum: Gas and Water Apparatus, 5; Electric Installation, 25; Belting, 20; Patterns 15; Patents, 10; Plant, 7½ (but on £600 for ½ year only).

The Loose Tools are valued at 31st March at £1,180. Write off one-third of Preliminary Expenses.

The Shares in the Volt and Ampere Co., Ltd., are now worth a premium of 40 per cent, and the Profit and Loss Account is to be credited accordingly.

Prepare Profit and Loss Account and Balance Sheet as at 31st March. (*West Riding of Yorkshire.*)

7. The Albury Mining Co., Ltd., was registered on 1st January, and commenced operations at once as an Exploring and Mining Company. The nominal Capital consisted of 50,000 Ordinary Shares of £5 each. Of this Capital 20,000 shares were issued and taken up by the public, 30s. per share being called up. During the process of sinking a shaft, a good deposit of clay was found, suitable for tile-making, and the Company decided to manufacture and sell tiles, as a separate trading department. During the month of December, the Company's engineer reported that a paying vein of tin had been reached; and the Directors decided that the cost to date of opening up this

vein should be capitalized and written off over future years when the property was in full working order.

On 31st December the balances of the Ledger accounts of the Company were as follows—

	£		£
Freehold Land at cost . .	7,000	Rates, Taxes, Office, and Sundry Expenses, and Carriage . . .	584
Buildings at cost . .	563	Carriage (Tile Dept.) . .	215
Preliminary Expenses .	410	Legal Expenses (*re* Claim for injuries in Mine Accident)	220
Stock of Stores and Coal on 31st December . .	988	Sales of Tiles . . .	2,599
Coal consumed . . .	931	Sundry Creditors . .	3,407
Wages	3,843	Tramway Track and Wagons at cost	1,100
Salaries	308	Travellers' Commission (Tile Dept.)	63
Stores used . . .	2,745	Bills Payable . . .	627
Stores used (Tile Dept.) .	56	Cash at Bank . . .	2,477
Wages (Tile Dept.) . .	2,733		
Machinery and Plant at cost.	12,038		
Capital	30,000		
Sundry Debtors . . .	359		

You are required to prepare (*a*) an account showing the amount which you consider should be capitalized as representing the cost of opening up the tin vein, (*b*) an account showing the trading results of the Tile Department for the year ended 31st December, and (*c*) the Balance Sheet as on 31st December.

The Directors decided that a charge of £343 should be made against the Tile Department, as representing power, coal, etc., used; and a charge of £104, as representing a share of general trade expenses.

The stock of tiles on hand as on 31st December was valued at £718. (*Royal Society of Arts.*)

CHAPTER XXIII

SINGLE ENTRY, HIRE-PURCHASE ACCOUNTS, INSTALMENT PAYMENT PURCHASES, ROYALTIES, INVESTMENT ACCOUNTS, STOCK EXCHANGE TRANSACTIONS, TABULAR BOOK-KEEPING

Definition of Single Entry. Single Entry is a method of book-keeping under which only personal accounts are kept, i.e. accounts concerning only Debtors and Creditors.

System Obtaining in Some Businesses. Pure single entry is seldom met with in actual practice. The methods in use, called by the name of single entry, are frequently a mixture of no entry, single entry, and double entry. Subsidiary books, such as Purchases Books, Sales Books, Returns Books, and Bill Books are sometimes kept, but only the personal side of each transaction is posted to the Ledger. A Cash Book is generally used to record receipts and payments; and, whenever posting from the Cash Book, etc., takes place, there is, of course, an instance of double entry.

Disadvantages of Single Entry. The following are the principal disadvantages —

(1) *The Record of Transactions is Incomplete.* As was explained in the first chapter of the present book, every transaction affects two accounts, and these accounts are sometimes personal and sometimes impersonal. Hence, if only personal accounts are kept, the record of transactions is only partial, and, therefore, incomplete.

(2) *No Information Respecting the Assets.* Owing to the absence of real or property accounts, no information can be derived from the Ledger respecting the general assets or property of the business.

(3) *No Information Concerning the Gains and Losses.* Owing to the absence of nominal accounts, no information is furnished by the Ledger respecting the various gains and losses of the business. There is, therefore, no data to afford a comparison of present and past years, thus making it impossible to trace the origin of any loss or of any decrease of profit.

(4) *The Final Results are Unreliable.* Owing to the one-sided posting, it is impossible to take out a Trial Balance, so that even the arithmetical accuracy of the Ledger cannot be verified. Further, the final Statement of Affairs, or Balance Sheet, as it is erroneously called, is entirely unreliable. Assets may be omitted, lists of Debtors or Creditors may be added incorrectly, and the values placed on assets that are shown may be far from accurate.

How Profit or Loss is Ascertained under Single Entry. In order to ascertain profit or loss under single entry, a comparison is made between the capitals at the commencement and the close of the trading period. If the final capital is greater than the initial capital, the

excess is regarded as profit; if the final capital is less than the initial capital, the deficiency is assumed to be loss. Capital in each case is the excess of assets over liabilities. Allowance must be made, of course, for additions and withdrawals of Capital, Partners' Salaries not drawn in cash, Interest on Capital, and Drawings on account of profits.

Example. L. W. Groves & T. Spindler are equal partners in a business in which the books are kept by single entry. The position of affairs on 1st January was as under —

Liabilities				*Assets*			
Bills Payable . .	£646	5	10	Cash in hand . .	£27	14	6
Sundry Creditors .	2,028	17	8	Cash at Bank . .	219	11	3
Capital Accounts—				Bills Receivable .	406	18	5
L. W. Groves .	7,339	14	–	Sundry Debtors .	4,867	10	2
T. Spindler . .	7,339	14	–	Stock	3,285	9	4
				Plant and Machinery .	8,017	11	4
				Furniture and Fixtures	529	16	6
	£17,354	11	6		£17,354	11	6

The following was the state of affairs on 31st December: Cash in hand, £39 16s. 8d.; Cash at Bank, £584 10s. 6d. Debtors, £5,628 15s. 11d.; Bills Receivable, £684 3s. 9d.; Stock, £3,672 18s. 6d. Creditors, £2,147 3s. 10d.; Bills Payable, £594 11s. 4d. The partners had drawn £450 each, and were further entitled to interest on their Capital at 5 per cent per annum. It was agreed to depreciate Plant and Machinery at the rate of 10 per cent., and Fixtures and Fittings at 5 per cent. Draw up the final accounts.

STATEMENT OF PROFIT AND LOSS

31st Dec., 19—

		£	s.	d.			£	s.	d.
Creditors		2,147	3	10	Plant and Machinery	£8,017 11 4			
Bills Payable		594	11	4	*Less* Depreciation	801 15 2			
							7,215	16	2
		2,741	15	2	Furniture and Fixtures	£529 16 6			
Balance (final Capital) c/d .		15,587	13	–	*Less* Depreciation	26 9 10			
							503	6	8
					Stock		3,672	18	6
					Debtors		5,628	15	11
					Bills Receivable . . .		684	3	9
					Cash in hand		39	16	8
					Cash at Bank		584	10	6
		18,329	8	2			18,329	8	2
Capital, 1st Jan. . . .		14,679	8	–	Capital, 31st Dec., b/d .		15,587	13	–
Interest to 31st Dec.—					Drawings—				
L. W. Groves .	£366 19 8				L. W. Groves . .	£450			
T. Spindler .	366 19 8				T. Spindler . .	450			
		733	19	4			900	–	
Balance (Net Profit)—									
L. W. Graves ½	£537 2 10								
T. Spindler ½	537 2 10								
		1,074	5	8					
	£	16,487	13	–		£	16,487	13	–

STATEMENT OF AFFAIRS

AS AT 31ST DEC., 19—

Liabilities	£	s.	d.	£	s.	d.	*Assets*	£	s.	d.	£	s.	d.
Bills Payable				594	11	4	Cash in hand	39	16	8			
Creditors				2,147	3	10	Cash at Bank	584	10	6			
Capital Accounts—											624	7	2
L. W. Groves,							Bills Receivable				684	3	9
1st Jan.	7,339	14	–				Sundry Debtors				5,628	15	11
Add Interest	366	19	8				Stock				3,672	18	6
,, Share of Profit	537	2	10				Plant and Machinery	8,017	11	4			
							Less Depreciation	801	15	2			
	8,243	16	6								7,215	16	2
Less Drawings	450	–	–				Furniture and Fix-						
				7,793	16	6	tures	529	16	6			
T. Spindler, 1st Jan.	7,339	14	–				*Less* Depreciation	26	9	10			
Add Interest	366	19	8								503	6	8
,, Share of Profit	537	2	10										
	8,243	16	6										
Less Drawings	450	–	–										
				7,793	16	6							
			£	18,329	8	2				£	18,329	8	2

Conversion of Books from Single Entry to Double Entry. In order to convert books from Single Entry to a system of Double Entry, a Statement of Assets and Liabilities, representing the position of affairs at the commencement of the trading period, must, first of all, be drawn up. Lists of Debtors and Creditors must be prepared, allowances being made for bad debts and discounts. Assets, such as Plant and Machinery, Furniture and Fixtures, Stock, etc., must be valued. The Cash and Bank balances must be ascertained. Accruing expenses, such as Rent, etc., must be entered. The excess of the total Assets over the total Liabilities would then give the initial Capital required to complete and balance the Statement. Opening entries would then be made in the Journal in the usual way, the assets being entered in the *Dr.* column and the liabilities in the *Cr.* column, the necessary particulars being copied from the Statement. The posting of these entries into the ledgers will place the set of books on a double entry basis.

The next task will be the writing up of the double entry for the period. The Purchases Book must be added, the contents analysed, and the totals posted to Purchases Account, Plant Account, Fixtures Account, Expenses Account, etc. The Sales Book must be added, and the total posted to the Sales Account. The Purchases Returns Book and the Sales Returns Book must also be added and the totals posted to Purchases Returns Account and Sales Returns Account respectively.

Where subsidiary books have not been kept, the above information would have to be obtained by analysing and summarizing the items on both sides of the Ledger accounts. The Cash Book must next be dealt with. All unposted items must be entered in the Ledger. These items will be such as affect impersonal accounts, e.g. expenses

such as Rent, Wages, Salaries, etc.; Cash Purchases and Sales, the purchase or sale of any assets, such as Plant, Furniture and Fixtures, etc.; the totals of the Discount columns. The Bill Books must also be added, and the totals posted to the Bills Receivable and Bills Payable Accounts respectively. All one-sided entries found in the Ledger, such as overcharges, allowances for short weight, or for empties returned, interest, dishonoured bills, bad debts written off, etc. must be journalized to their respective impersonal accounts. The whole of the transactions will then have been entered on a double entry basis, and a Trial Balance can be extracted to prove the accuracy of the work.

HIRE-PURCHASE ACCOUNTS

Definition. The hire-purchase system is a system under which money is paid for goods by means of periodical instalments, with the view of ultimate purchase. All money being paid in the meantime is regarded as payment for hire; and the goods become the property of the buyer only when all the instalments have been paid. If default is made in payment of the instalments, the owner can recover possession of the goods.

Entries in the Buyer's Books. It will be obvious that, if payment of the value of the goods is to be made over a protracted period, such payment will include charges for interest. And it will be found that the total of the instalments is more or less the cash value of the goods, plus interest on the balance of purchase money from time to time unpaid. In the books of the buyer, no entry will be made until the first instalment is paid. This must be apportioned as between capital and revenue. It will be necessary to ascertain the cash value of the goods, and also the rate of interest charged for hire. Whenever an instalment is paid, the interest on the cash value, or the unpaid portion of it, must be worked out. The amount of the interest will represent the proportion of the instalment to allocate to revenue, i.e. to debit to Profit and Loss as the charge for hire; and the balance of the instalment will be the amount to charge to capital, i.e. to debit to an Asset Account.

How Depreciation is Dealt With. Some accountants contend that it is quite wrong to take depreciation into consideration at all; that it is, in fact, an error of principle to depreciate, in our books, goods that belong to another person. But it must be remembered that these payments are being made with the ultimate object of making the goods our own. The disadvantage of not making provision for depreciation can be clearly seen from the following illustration. Suppose it is agreed to buy goods on the hire-purchase

system, and that the payments are to extend over a period of five years. Suppose, also, that the payments are continued and the articles eventually become our property. At the end of the period the goods will appear in our books at their cost price (i.e. at the price of new ones), and yet the articles will have been in use for five years. This, too, is obviously wrong in principle. The object of providing for depreciation, therefore, is that the asset shall appear in the books, at the end of the purchasing period, at its then value. This is achieved by writing depreciation off the cash value of the asset; in other words, by depreciating the asset in the same way as other assets bought for cash or on credit. Any repairs or renewals that may become necessary will, of course, be charged to Profit and Loss Account.

Example. A Colliery Company purchases Wagons on the hire-purchase system over a period of five years, payable by annual instalments of £600. The Wagon Company charges interest at the rate of 5 per cent per annum on the yearly balances. Show the accounts in the books of the buyer. Depreciation to be reckoned at 10 per cent.

The cash value of the Wagons may be taken as the present value of an annuity of £600 for 5 years at 5 per cent interest. Reference to the Table shows that the present value of an annuity of £1 for 5 years at 5 per cent is £4.329477. This amount multiplied by 600 gives us £2,597 13s. 9d. as the cash value of the wagons.

In Buyer's Books

JOURNAL

Year		Dr. £	s.	d.	Cr. £	s.	d.
1	Wagon A/c	470	2	4			
	Wagon Hire A/c (5% £2,597 13s. 9d.) .	129	17	8			
	To Wagon Company				600	–	–
2	Wagon A/c	493	12	5			
	Wagon Hire A/c (5% £2,127 11s. 5d.) .	106	7	7			
	To Wagon Company				600	–	–
3	Wagon A/c	518	6	1			
	Wagon Hire A/c (5% £1,633 19s.) . .	81	13	11			
	To Wagon Company				600	–	–
4	Wagon A/c	544	4	4			
	Wagon Hire A/c (5% £1,115 12s. 11d.) .	55	15	8			
	To Wagon Company				600	–	–
5	Wagon A/c	571	8	7			
	Wagon Hire A/c (5% £571 8s. 7d.) .	28	11	5			
	To Wagon Company				600	–	–

LEDGER

Dr. INSTALMENTS ON WAGONS ON HIRE-PURCHASE ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Wagon Co.	470	2	4	1	By Depreciation, 10% £2,597 13s. 9d.	259	15	4
						„ Balance c/d	210	7	–
		470	2	4			470	2	4
2	To Balance b/d	210	7	–	2	By Depreciation, 10% £2,337 18s. 5d.	233	15	10
	„ Wagon Co.	493	12	5		„ Balance c/d	470	3	7
		703	19	5			703	19	5
3	To Balance b/d	470	3	7	3	By Depreciation, 10%, £2,104 2s. 7d.	210	8	3
	„ Wagon Co.	518	6	1		„ Balance c/d	778	1	5
		988	9	8			988	9	8
4	To Balance b/d	778	1	5	4	By Depreciation, 10%, £1,893 14s. 4d.	189	7	5
	„ Wagon Co.	544	4	4		„ Balance c/d	1,132	18	4
		1,322	5	9			1,322	5	9
5	To Balance b/d	1,132	18	4	5	By Depreciation, 10%, £1,704 6s. 10d.	170	8	8
	„ Wagon Co.	571	8	7		„ Balance c/d	1,533	18	3
		1,704	6	11			1,704	6	11
	To Balance b/d	1,533	18	3					

The item would be described on the Balance Sheet as "Instalments paid on Wagons on Hire-Purchase," or simply "Wagons on Hire-Purchase Agreement."

Dr. WAGON HIRE ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Wagon Co.	129	17	8	1	By Profit and Loss A/c	129	17	8
2	„ „ „	106	7	7	2	„ „ „ „	106	7	7
3	„ „ „	81	13	11	3	„ „ „ „	81	13	11
4	„ „ „	55	15	8	4	„ „ „ „	55	15	8
5	„ „ „	28	11	5	5	„ „ „ „	28	11	5

Dr. WAGON COMPANY *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash	600	–	–	1	By Sundries	600	–	–
2	„ „	600	–	–	2	„ „	600	–	–
3	„ „	600	–	–	3	„ „	600	–	–
4	„ „	600	–	–	4	„ „	600	–	–
5	„ „	600	–	–	5	„ „	600	–	–

The value of the Wagons is exactly the same as if we had bought them for cash and written off depreciation annually at 10 per cent, as the following illustration clearly shows—

Dr. WAGON ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash . . .	2,597	13	9	1	By Depreciation, 10% .	259	15	4
						„ Balance c/d . .	2,337	18	5
		2,597	13	9			2,597	13	9
2	To Balance b/d . .	2,337	18	5	2	By Depreciation, 10% .	233	15	10
						„ Balance c/d . .	2,104	2	7
		2,337	18	5			2,337	18	5
3	To Balance b/d . .	2,104	2	7	3	By Depreciation, 10% .	210	8	3
						„ Balance c/d . .	1,893	14	4
		2,104	2	7			2,104	2	7
4	To Balance b/d . .	1,893	14	4	4	By Depreciation, 10% .	189	7	5
						„ Balance c/d . .	1,704	6	11
		1,893	14	4			1,893	14	4
5	To Balance b/d . . .	1,704	6	11	5	By Depreciation, 10% .	170	8	8
						„ Balance c/d . .	1,533	18	3
		1,704	6	11			1,704	6	11
	To Balance b/d . .	1,533	18	3					

Another method, and the one advocated by the present editor, is to open with an entry—

	Dr.			*Cr.*		
Wagons under Hiring Agreement . .	2,597	13	9			
To Vendor				2,597	13	9

crediting the Vendor with interest from time to time, and debiting him with the instalments just as is advocated (later) for Instalment Payment Purchases. In this case the item would be stated on the Balance Sheet as—

Wagons under Hiring agreement	£2,104	2	7
Less liability in respect thereof . . .	1,633	19	–
	£470	3	7

It will be noticed that this produces the same result as the former method, the £470 3s. 7d. being made up of two instalments—

	£963	14	9
Less depreciation for 2 years . . .	493	11	2
	£470	3	7

Exception is sometimes taken to this on the ground that the

wagons do not *belong* to the hirer, but the above point as to Depreciation is the answer to that objection, viz. that it is intended that they *shall* eventually belong to him.

This method also has the advantage of keeping an account which agrees with that in the books of the wagon owner. (See next paragraph.)

Entries in Seller's Books. In the Seller's books the items will be entered at their cash value into a special Hire-Purchase Day Book. From this they will be posted to the debit of the purchaser's account in the Ledger. Periodically, the total of the Hire-Purchase Day Book will be posted to the credit of a Hire-Purchase Sales Account. As each instalment falls due, the customer's account will be debited with interest on the unpaid amount of it. This interest will be credited to a Hire-Purchase Interest Account, and, at balancing time, will be transferred to Profit and Loss Account along with other profits. The goods, however, are not yet the absolute property of the buyer; and if default is made in payment, the seller may re-take possession of them. It is, therefore, necessary to make a Reserve to cover any possible loss that might be sustained through such a contingency.

Example. A Colliery Company purchases Wagons on the hire-purchase system over a period of five years, payable by annual instalments of £600. The Wagon Co. charge interest at the rate of 5 per cent per annum on yearly balances. The cash value of the goods is £2,597 13s. 9d. Show the accounts in the books of the seller.

In Seller's Books

LEDGER

Dr. COLLIERY COMPANY *Cr.*

Year					Year				
1	To Hire Purchase Sales A/c	2,597	13	9	1	By Cash	600	–	–
	,, Interest 5%	129	17	8		,, Balance c/d	2,127	11	5
		2,727	11	5			2,727	11	5
2	To Balance b/d	2,127	11	5	2	By Cash	600	–	–
	,, Interest 5%	106	7	7		,, Balance c/d	1,633	19	–
		2,233	19	–			2,233	19	–
3	To Balance b/d	1,633	19	–	3	By Cash	600	–	–
	,, Interest 5%	81	13	11		,, Balance c/d	1,115	12	11
		1,715	12	11			1,715	12	11
4	To Balance b/d	1,115	12	11	4	By Cash	600	–	–
	,, Interest 5%	55	15	8		,, Balance c/d	571	8	7
		1,171	8	7			1,171	8	7
5	To Balance b/d	571	8	7	5	By Cash	600	–	–
	,, Interest 5%	28	11	5					
		600	–	–			600	–	–

Dr. HIRE-PURCHASE INTEREST. *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
1	To Profit and Loss A/c	129	17	8	1	By Colliery Co.	129	17	8
2	" " " "	106	7	7	2	" " "	106	7	7
3	" " " "	81	13	11	3	" " "	81	13	11
4	" " " "	55	15	8	4	" " "	55	15	8
5	" " " "	28	11	5	5	" " "	28	11	5

Second Method of Dealing with Hire-Purchase Accounts. Where numbers of articles of much smaller value are being sold daily on the Hire-Purchase System, the foregoing method of book-keeping is rather too elaborate, and a simpler plan is adopted.

A Hire-Purchase Day Book is kept, in which the Hire-Purchase Sales are entered *at cost*. A Hire-Purchase Ledger is also employed, but this is only a memorandum book. An account is opened for each customer, who is debited at once with the total amount due from him, and credited periodically as the instalments are received; the balance of the account at any time shows the amount still due from the customer.

The total of the Hire-Purchase Day Book is posted periodically in the General Ledger to the debit of a Hire-Purchase Account and to the credit of an account entitled Goods on Hire-Purchase, this latter account being closed eventually to Trading Account. At balancing time, the stock in the hire purchaser's hands is valued *at cost*, written in on the credit side of the Hire-Purchase Account, and brought down as a balance for the new period. The difference between the *Dr.* and *Cr.* columns of the Hire-Purchase Account will then represent the profit to date on the hire-purchase business, and will be transferred like other profits to the Profit and Loss Account. The following is a specimen of such a Hire-Purchase Account—

Dr. HIRE-PURCHASE ACCOUNT *Cr.*

Date		£	s.	d.	Date		£	s.	d.
19— Jan. 1	To Stock in Customers' hands (at cost)	1,017	6	8	19— Dec. 31	By Cash received from hire purchasers during the Year	2,059	13	2
Dec. 31	" Hire-Purchase Sales for Year (at cost)	4,084	19	11	31	" Stock in Customers' hands, at cost (total of instalments still due less proportion of profit)	3,546	15	8
31	" Balance (profit to date) transferred to Profit and Loss A/c	504	2	3					
		5,606	8	10			5,606	8	10
19— Jan. 1	To Stock b/d	3,546	15	8					

INSTALMENT-PAYMENT PURCHASES

Difference between Hire-Purchase and Instalment-Payment Purchase. Under the Hire-Purchase system, the property in the goods does not pass to the buyer, but remains vested in the seller until the last instalment has been paid; and, if default is made in payment, the seller can re-take possession of the goods. Under the instalment-payment system of purchase, however, the property in the goods passes at once to the buyer. He actually owns the goods, although payment for them is to be spread over a series of years. If default is made in payment, the seller cannot re-take possession of the goods; he can only sue for the balance of the debt. This difference naturally causes a variation in the method of book-keeping.

Entries in the Books of the Buyer. The Asset Account will be debited with the *cash value* of the asset, and this amount will be credited to the account of the Vendor. The Vendor's account will be credited each year (or at other intervals as arranged) with interest at an agreed rate on the balance outstanding, the interest being debited to Interest Account. As each instalment is paid, Cash Account will be credited and Vendor's Account debited.

Example. A Colliery Company purchases on the instalment-payment system a number of Coal Wagons, to be paid for by five annual instalments of £600 each. The cash value of the Wagons is £2,597 13s. 9d., and the Wagon Company charges interest at 5 per cent per annum on yearly rests. Write up the accounts in the books of the purchaser, charging depreciation at 10 per cent per annum on the diminishing balance. (See next page.)

Alternative Method.

Entries in the Books of the Buyer. In the purchaser's books an Asset Account will be opened and debited with the *cash value* of the goods. The difference between this amount and the purchase price will represent the charge for interest, and will be debited to an Interest Suspense Account. An account will also be opened for the Vendor, and will be credited with the total amount to be paid by the purchaser, viz., cash value plus interest. As each instalment is paid, Cash Account will be credited and the Vendor's Account debited. At each annual balancing, a portion of the Interest Suspense Account will be written off (i.e. transferred as a loss to Profit and Loss Account). The amount to be so transferred will be an amount equal to the interest on the then unpaid balance of purchase money. Thus, by the time the period

In Purchaser's Books

JOURNAL

Year		Dr. £	s.	d.	Cr. £	s.	d.
1	Wagon A/c	2,597	13	9			
	To Wagon Company . .				2,597	13	9
	for present value of Wagons purchased on the instalment-payment system.						

LEDGER

WAGON ACCOUNT

Dr. Year		£	s.	d.	Cr. Year		£	s.	d.
1	To Wagon Co. . . .	2,597	13	9	1	By Depreciation, 10% .	259	15	4
						„ Balance c/d . .	2,337	18	5
		2,597	13	9			2,597	13	9
2	To Balance b/d . .	2,337	18	5	2	By Depreciation, 10% .	233	15	10
						„ Balance c/d . .	2,104	2	7
		2,337	18	5			2,337	18	5
3	To Balance b/d . .	2,104	2	7	3	By Depreciation, 10% .	210	8	3
						„ Balance c/d . .	1,893	14	4
		2,104	2	7			2,104	2	7
4	To Balance b/d . .	1,893	14	4	4	By Depreciation, 10% .	189	7	5
						„ Balance c/d . .	1,704	6	11
		1,893	14	4			1,893	14	4
5	To Balance b/d . .	1,704	6	11	5	By Depreciation, 10% .	170	8	8
						„ Balance c/d . .	1,533	18	3
		1,704	6	11			1,704	6	11
	To Balance b/d . .	1,533	18	3					

WAGON COMPANY

Dr. Year		£	s.	d.	Cr. Year		£	s.	d.
1	To Cash . .	600	–	–	1	By Sundries . .	2,597	13	9
	„ Balance c/d .	2,127	11	5		„ Interest . .	129	17	8
		2,727	11	5			2,727	11	5
2	„ Cash . . .	600	–	–	2	„ Balance b/d .	2,127	11	5
	„ Balance c/d .	1,633	19	–		„ Interest . .	106	7	7
		2,233	19	–			2,233	19	–
3	„ Cash . . .	600	–	–	3	„ Balance b/d .	1,633	19	–
	„ Balance c/d .	1,115	12	11		„ Interest . .	81	13	11
		1,715	12	11			1,715	12	11
4	„ Cash . . .	600	–	–	4	„ Balance b/d .	1,115	12	11
	„ Balance c/d .	571	8	7		„ Interest . .	55	15	8
		1,171	8	7			1,171	8	7
5	„ Cash . . .	600	–	–	5	„ Balance b/d .	571	8	7
						„ Interest . .	28	11	5
		600	–	–			600	–	–

of payment has elapsed, the Interest Suspense Account will be entirely extinguished.

The Journal entry will be—

Year 1	Wagon A/c	2,597	13	9			
	Interest Suspense A/c	402	6	3			
	To Wagon Company				3,000	-	-
	for wagons purchased on the instalment-payment system.						

The Wagon Account will appear as in the previous example: the account of the Wagon Company and the Interest Suspense Account will be as shown below—

Dr. WAGON COMPANY *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash	600	-	-	1	By Sundries	3,000	-	-
	„ Balance c/d	2,400	-	-					
		3,000	-	-			3,000	-	-
2	To Cash	600	-	-	2	By Balance b/d	2,400	-	-
	„ Balance c/d	1,800	-	-					
		2,400	-	-			2,400	-	-
3	To Cash	600	-	-	3	By Balance b/d	1,800	-	-
	„ Balance c/d	1,200	-	-					
		1,800	-	-			1,800	-	-
4	To Cash	600	-	-	4	By Balance b/d	1,200	-	-
	„ Balance c/d	600	-	-					
		1,200	-	-			1,200	-	-
5	To Cash	600	-	-	5	By Balance b/d	600	-	-

Dr. INTEREST SUSPENSE ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Wagon Co.	402	6	3	1	By Profit and Loss	129	17	8
						„ Balance c/d	272	8	7
		402	6	3			402	6	3
2	To Balance b/d	272	8	7	2	By Profit and Loss	106	7	7
						„ Balance c/d	166	1	-
		272	8	7			272	8	7
3	To Balance b/d	166	1	-	3	By Profit and Loss	81	13	11
						„ Balance c/d	84	7	1
		166	1	-			166	1	-
4	To Balance b/d	84	7	1	4	By Profit and Loss	55	15	8
						„ Balance c/d	28	11	5
		84	7	1			84	7	1
5	To Balance b/d	28	11	5	5	By Profit and Loss	28	11	5

First Method.

Entries in the Vendor's Books. A Journal entry will be made, debiting the purchaser and crediting the Sales Account with the *cash value* of the goods. Periodically, as arranged, the purchaser will be debited with interest on the balance outstanding, the amount of the interest being credited to Interest Account. Cash will be debited with the instalment when received, and the amount will be passed to the credit of the purchaser.

Example. A Colliery Company purchases on the instalment-payment plan a number of Coal Wagons, to be paid for by five annual instalments of £600 each. The cash value of the Wagons is £2,597 13s. 9d., and the Wagon Company charge interest at 5 per cent per annum on yearly rests. Write up the purchaser's account in the books of the Vendor.

LEDGER

Dr. COLLIERY COMPANY *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Sundries	2,597	13	9	1	By Cash	600	–	–
	„ Interest	129	17	8		„ Balance c/d	2,127	11	5
		2,727	11	5			2,727	11	5
2	„ Balance b/d	2,127	11	5	2	„ Cash	600	–	–
	„ Interest	106	7	7		„ Balance c/d	1,633	19	–
		2,233	19	–			2,233	19	–
3	„ Balance b/d	1,633	19	–	3	„ Cash	600	–	–
	„ Interest	81	13	11		„ Balance c/d	1,115	12	11
		1,715	12	11			1,715	12	11
4	„ Balance b/d	1,115	12	11	4	„ Cash	600	–	–
	„ Interest	55	15	8		„ Balance c/d	571	8	7
		1,171	8	7			1,171	8	7
5	„ Balance b/d	571	8	7	5	„ Cash	600	–	–
	„ Interest	28	11	5					
		600	–	–			600	–	–

Alternative Method.

Entries in the Vendor's Books. The goods will be entered at their *cash value* into a special Journal, the amount being credited to Sales Account, and the Interest credited to an Interest Suspense Account. The total of both goods and interest is debited to the account of the purchaser. As each instalment is received, it will be debited in the Cash Book and credited to the Purchaser's Account. At balancing time a portion of the Interest Suspense Account will be transferred to Profit and Loss Account as a realized gain. At the end of the period of payment, the Interest Suspense Account will be entirely extinguished.

The Journal entry would be —

JOURNAL

Year		Dr. £	s.	d.	Cr. £	s.	d.
1	Colliery Co.	3,000	-	-			
	To Sales A/c . . .				2,597	13	9
	,, Interest Suspense A/c .				402	6	3
	for wagons sold on the instalment payment system.						

The Purchaser's Account and the Interest Suspense Account are appended.

LEDGER

COLLIERY COMPANY

Dr. Year		£	s.	d.	Cr. Year		£	s.	d.
1	To Sundries . . .	3,000	-	-	1	By Cash . . .	600	-	-
						,, Balance c/d . .	2,400	-	-
		3,000	-	-			3,000	-	-
2	To Balance b/d . .	2,400	-	-	2	By Cash . . .	600	-	-
						,, Balance c/d . .	1,800	-	-
		2,400	-	-			2,400	-	-
3	To Balance b/d . .	1,800	-	-	3	By Cash . . .	600	-	-
						,, Balance c/d . .	1,200	-	-
		1,800	-	-			1,800	-	-
4	To Balance b/d . .	1,200	-	-	4	By Cash . . .	600	-	-
						,, Balance c/d . .	600	-	-
		1,200	-	-			1,200	-	-
5	To Balance b/d . .	600	-	-	5	By Cash . . .	600	-	-

INTEREST SUSPENSE ACCOUNT

Dr. Year		£	s.	d.	Cr. Year		£	s.	d.
1	To Profit and Loss . .	129	17	8	1	By Colliery Co. . .	402	6	3
	,, Balance c/d . .	272	8	7					
		402	6	3			402	6	3
2	To Profit and Loss . .	106	7	7	2	By Balance b/d . .	272	8	7
	,, Balance c/d . .	166	1	-					
		272	8	7			272	8	7
3	To Profit and Loss . .	81	13	11	3	By Balance b/d . .	166	1	-
	,, Balance c/d . .	84	7	1					
		166	1	-			166	1	-
4	To Profit and Loss . .	55	15	8	4	By Balance b/d . .	84	7	1
	,, Balance c/d . .	28	11	5					
		84	7	1			84	7	1
5	To Profit and Loss . .	28	11	5	5	By Balance b/d . .	28	11	5

ROYALTIES

Definition. A mineral royalty is a charge of so much per ton on every ton of ore or mineral obtained from a colliery, mine, quarry, pit, etc.

Minimum Rent. This is the annual rent that must be paid by the lessee to the lessor. A royalty being a payment based on the tonnage raised, it follows that if in any year no minerals were raised, the lessor would receive no payment. To guard against this lack of income owing to a small output, or no output, the lessor arranges that a minimum rent shall be paid whether covered by royalties or not. In order to secure for himself a larger income in times of increased output, he also arranges that the minimum rent shall merge into a royalty of a fixed amount per ton. The sum payable in each year is, therefore, always the *greater* amount, royalties or minimum rent, as the case may be (after the working off of unworked dead rent or short workings). Various other terms are commonly used for minimum rent, viz. head rent, sleeping rent, fixed rent, dead rent, annual rent, certain rent, etc.

Surface Rent. Some mineral leases contain a clause stipulating for the payment of a fixed yearly or half-yearly sum as surface or ground rent, in addition to the minimum rent and royalty.

Acreage, Footage, Tentail. Royalties are not always based on the *tonnage* raised. "Acreage" is a fixed price per *acre* of the coal field worked. "Footage" is a fixed price per *cubic foot* of coal extracted. "Tentail" is another term for acreage or royalty rent.

Short Workings. When the royalty on the actual output amounts to less than the minimum rent, the deficiency is called the Short Workings or Shorts. Leases of mineral areas generally contain a clause giving the lessee power to recoup Short Workings out of future royalties that exceed the minimum rent; hence, the use of the term Redeemable Dead Rent to denote the deficiency recoverable out of future excess royalties. The right of recoupment is sometimes limited to a certain number of years, and sometimes extends over the whole period of the lease. Other common terms for Short Workings or Redeemable Dead Rent are Overpaid Royalties, Royalties Paid in Advance, and Royalties in Suspense.

Deduction of Income Tax. The amounts payable to the lessor in respect of royalties, minimum rent, or surface rent are subject to deduction of income tax at the current rate for unearned income.

Treatment of Short Workings. Where there is a right to recoup Short Workings, the Trading (or Working) Account is debited only with the royalty on the actual output, and the balance of the minimum rent paid is treated as a temporary asset, appearing as such on the Balance Sheet. Where there is no power of

recoupment, the Trading (or Working) Account is charged with the full minimum rent. When the period of recoupment has expired, any balance at the debit of Short Workings Account will be an actual loss, and must, therefore, be transferred to Profit and Loss Account.

Methods of Dealing in the Books with Royalties and Minimum Rent. From the point of view of accounting, there are two principal methods in vogue, and the following are the respective formulas for the two methods—

First Method—

(*a*) When the Minimum Rent is greater than the Royalties—

(1) *Debit* Royalties Account with the Royalty on the actual output;

(2) *Debit* the difference (i.e. the Short Workings) to a Redeemable Dead Rent Account;

(3) *Credit* Landlord's Account with the Minimum Rent.

(*b*) When the Minimum Rent is less than the Royalties—

(1) *Debit* Royalties Account with the Royalty on the actual output;

(2) *Credit* Landlord's Account with the Minimum Rent;

(3) *Credit* Redeemable Dead Rent Account with the balance.

If there are no Short Workings to recoup, the Landlord's Account must be *credited* with the whole of the Royalties. Where the excess Royalties are more than sufficient to recoup the Short Workings, the balance of Royalties must be *credited* to the Landlord's Account, in addition to the Minimum Rent.

Second Method—

(*a*) When the Minimum or Dead Rent is greater than the Royalties—

(1) *Debit* Dead Rent Account and *credit* Landlord's Account with the Minimum Rent;

(2) *Debit* Royalties Account and *credit* Dead Rent Account with the Royalty on the actual output;

(3) *Debit* Short Workings Account and *credit* Dead Rent Account with the balance of the Dead Rent.

(*b*) When the Minimum or Dead Rent is less than the Royalties—

(1) *Debit* Royalties Account (not opening a Dead Rent Account at all); *credit* Short Workings Account with any Short Workings recouped, and *credit* Landlord's Account with the balance.

Example. A Colliery Company acquires the Lease of a coal mine for thirty years at a Minimum Rent of £500 per annum, merging into a Royalty of 6d. per ton. The right of recouping

Short Workings is restricted to the end of each period of three years. The annual output was as follows: 1st year, 9,000 tons; 2nd year, 16,000 tons; 3rd year, 30,000 tons. Make the necessary entries in the Journal, and show also the respective Ledger Accounts.

Note.—Income Tax would have to be deducted from the Royalty paid, but to avoid complications the full amount has been debited to the Landlord as Cash.

First Method —

JOURNAL

Year		Dr.			Cr.		
1	Royalties	225	–	–			
	6d. per ton on 9,000 tons raised.						
	Redeemable Dead Rent . .	275	–	–			
	To Landlord . . .				500	–	–
2	Royalties	400	–	–			
	6d. per ton on 16,000 tons raised.						
	Redeemable Dead Rent . .	100	–	–			
	To Landlord . . .				500	–	–
3	Royalties	750	–	–			
	6d. per ton on 30,000 tons raised.						
	To Landlord. . . .				500	–	–
	,, Redeemable Dead Rent .				250	–	–

LEDGER

Dr. ROYALTIES Cr.

Year					Year				
1	To Landlord . . .	225	–	–	1	By Trading A/c . .	225	–	–
2	To Landlord . . .	400	–	–	2	By Trading A/c . .	400	–	–
3	To Landlord . . .	500	–	–	3	By Trading A/c . .	750	–	–
	,, Redeemable Dead Rent	250	–	–					
		750	–	–			750	–	–

Dr. REDEEMABLE DEAD RENT Cr.

Year					Year				
1	To Landlord . . .	275	–	–	1	By Amount c/d . .	275	–	–
2	To Amount b/d . .	275	–	–	2	By Amount c/d . .	375	–	–
	,, Landlord . . .	100	–	–					
		375	–	–			375	–	–
3	To Amount b/d . .	375	–	–	3	By Royalties . . .	250	–	–
						,, Profit and Loss (amount unredeemed) . .	125	–	–
		375	–	–			375	–	–

Dr. LANDLORD Cr.

Year		£	s.	d.	Year		£	s.	d.
1	To Cash . . .	500	–	–	1	By Royalties . . .	225	–	–
						" Redeemable Dead Rent	275	–	–
		500	–	–			500	–	–
2	To Cash . . .	500	–	–	2	By Royalties . . .	400	–	–
						" Redeemable Dead Rent	100	–	–
		500	–	–			500	–	–
3	To Cash . . .	500	–	–	3	By Royalties . . .	500	–	–
		500	–	–			500	–	–

Second Method —

JOURNAL

Year		Dr.			Cr.		
1	Dead Rent	500	–	–			
	To Landlord . . .				500	–	–
	for minimum rent.						
	Royalties	225	–	–			
	To Dead Rent . . .				225	–	–
	6d. per ton on 9,000 tons raised.						
	Short Workings . . .	275	–	–			
	To Dead Rent . . .				275	–	–
	transfer of balance.						
2	Dead Rent	500	–	–			
	To Landlord . . .				500	–	–
	for minimum rent.						
	Royalties	400	–	–			
	To Dead Rent . . .				400	–	–
	6d. per ton on 16,000 tons raised.						
	Short Workings . . .	100	–	–			
	To Dead Rent . . .				100	–	–
	transfer of balance.						
3	Royalties	750	–	–			
	6d. per ton on 30,000 tons raised.						
	To Landlord . . .				500	–	–
	To Short Workings . .				250	–	–
	amount recouped out of excess royalties.						

LEDGER

Dr. DEAD RENT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Landlord	500	–	–	1	By Royalties	225	–	–
						„ Short Workings	275	–	–
		500	–	–			500	–	–
2	To Landlord	500	–	–	2	By Royalties	400	–	–
						„ Short Workings	100	–	–
		500	–	–			500	–	–

Dr. ROYALTIES *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Dead Rent	225	–	–	1	By Trading A/c	225	–	–
2	To Dead Rent	400	–	–	2	By Trading A/c	400	–	–
3	To Sundries	750	–	–	3	By Trading A/c	750	–	–

Dr. SHORT WORKINGS *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Dead Rent	275	–	–	1	By Amount c/d	275	–	–
2	To Amount b/d	275	–	–	2	By Amount c/d	375	–	–
	„ Dead Rent	100	–	–					
		375	–	–			375	–	–
3	To Amount b/d	375	–	–	3	By Royalty	250	–	–
						„ Profit and Loss (amount unrecouped)	125	–	–
		375	–	–			375	–	–

Dr. LANDLORD *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash	500	–	–	1	By Dead Rent	500	–	–
		500	–	–			500	–	–
2	To Cash	500	–	–	2	By Dead Rent	500	–	–
		500	–	–			500	–	–
3	To Cash	500	–	–	3	By Royalties	500	–	–
		500	–	–			500	–	–

INVESTMENT ACCOUNTS

Special Ruling. Investment Accounts are usually ruled with three columns on each side, so that the nominal value of the investment, the principal or capital value, and the periodical interest or dividends may be seen at a glance. Where the interest or dividend is payable at fixed dates, such dates are recorded at the head of the Investment Account.

Entries in the Accounts. When the investment is purchased, the nominal value will be entered in the Nominal Value column and the actual cost in the Capital column. As the dividend or interest is received, the cash will be debited in the Cash Book and posted to the credit of the Income column of the Investment Account. At balancing time, the total receipts from each investment will be transferred to a Dividends and Interest Account and finally to Profit and Loss. Where fixed dividends have accrued, but have not been actually received, the amount should, at balancing time, be entered in the Interest or Dividends column and brought down as a debit balance in the same column.

Example 1. P. Ruthven holds £6,000 worth of 2½ per cent Consols, which cost him, including brokerage and expenses, £4,768 14s. 4d. Show the Ledger Account of the investment for one year, dividends being payable on 5th January, 5th April, 5th July, and 5th October. (See page 897.)

Purchase of Investments. When investments are purchased cum div.—and the price is always cum div., unless otherwise stated—it will be necessary to ascertain the amount of the accrued dividend, less tax, and to enter it in the Interest or Dividends column of the Investment Account; and also to *deduct* the amount from opening price of investments. The balance of the purchase price will represent the capital cost to be entered in the Capital or Principal column. When the dividend or interest on the investment is received, it will be credited in the Interest or Dividend column. The offset on the debit side of the same column will have the effect of reducing the dividend to the amount receivable for the time the investment has been held. When stocks, shares, etc., are purchased cum div., such an adjustment should always be made in private accounts. It would not be proper to show an investment as earning six months' income, if we had held the investment for only *two* months.

Sale of Investments. When investments are sold cum div.—and the price is always cum div., unless otherwise stated—it will likewise be necessary to ascertain the amount of the accrued dividend, up to date of sale, less tax and to enter it in the Interest or Dividends column. Such an adjustment must be made, because the purchase-price will include the accruing dividend. The balance of the money received, after deducting the accrued dividend or interest, will represent the capital amount to be entered in the Capital or Principal column.

Profit or Loss on Sale of Investments. When the whole of an investment is sold, the difference of the Capital columns will represent profit or loss on such sale. When only part of an investment is sold, the balance of the holding should be brought down *at cost.* Any difference between the Capital columns will denote profit or loss on the sale. This profit or loss is transferred to a separate

2½% CONSOLS

Dividends payable on 5th Jan., 5th April, 5th July, and 5th Oct.

Dr. | *Cr.*

Date	Particulars	Nominal £ s. d.	Dividends or Interest £ s. d.	Capital or Principal £ s. d.	Date	Particulars	Nominal £ s. d.	Dividends or Interest £ s. d.	Capital or Principal £ s. d.
19— Jan. 1	To Balance	6,000 – –	28 12 –	4,768 14 4	19— Jan. 5	By Cash— Quarter's Dividend to date £37 10 – *Less tax at 4s. 7 10 –		30 – –	
Dec. 31	„ Transfer to Dividends and Interest Account . .		120 – –		Apr. 5	By Cash (ditto) . . .		30 – –	
					July 5	„ „ „ . . .		30 – –	
					Oct. 5	„ „ „ . . .		30 – –	
					Dec. 31	„ Balance c/d . . .	6,000 – –	28 12 –	4,768 14 4
		£6,000 – –	£148 12 –	£4,768 14 4			£6,000 – –	£148 12 –	£4,768 14 4
19— Jan. 1	To Balance b/d . . .	6,000 – –	28 12 –	4,768 14 4					

NOTE. The accruing Dividend at the commencement of the year is obtained by taking $\frac{87}{365}$ of £120, the yearly dividend less tax at 4s. Some accountants prefer to take $\frac{87}{92}$ of the quarterly dividend less tax. It makes no difference to the yearly income from the Investment, as the same amount has to be carried forward again at the end of the year.

* *This rate of tax is used for convenience only.*

account entitled Profit (or Loss) on Sale of Investments. Although of a *capital* nature, it is usually closed at balancing time by transfer to Revenue or Profit and Loss Account.

Balancing Investment Accounts. When the Investment Account is balanced at the end of each year, the balance should be brought down *at cost* (including brokerage and expenses). Where the market value of the investments on the date of balancing is above cost, no credit should be taken for the enhanced price; but where the market value is below cost, a reserve for depreciation should be made. Temporary market fluctuations are ignored, but permanent depreciation should be written off. Where, at balancing times, investments have been valued at cost, the market price of such investments should be stated as a foot-note on the Balance Sheet, so that there may be no concealment of facts.

Example 2. A Company purchased on the 1st February £10,000 of 4 per cent Stock inscribed at the Bank of England, at 95, dividends being payable on 31st March, 30th June, 30th September, and 31st December. Stamps and Expenses amounted to £4 5s., and Brokerage of $\frac{1}{8}$ per cent was charged. On 1st May £3,000 worth of Stock was sold for cash at 97, less Brokerage $\frac{1}{8}$ per cent. and Expenses £1 6s. On 31st August £2,000 worth of Stock was sold for cash at 96 ex div., less Brokerage $\frac{1}{8}$ per cent and Expenses 19s. The market price on 31st December, the date of the annual balancing, was 94. Show the Ledger Account of the investment, recording the above transactions and the receipt of the quarterly dividends, and balance it as at 31st December. (See page 899.)

STOCK EXCHANGE TRANSACTIONS

We have just dealt with one side of these transactions, namely, the client's side, under Investment Accounts. We will now, by means of an illustration, show the accounts in the stockbroker's books.

Example. Thomas Oliver had the undermentioned transactions with his broker on the London Stock Exchange—

On 5th Aug. he purchased £8,000 Victoria $3\frac{1}{2}$% 1929-49 Stock at $102\frac{5}{8}$, and £12,000 Natal 4% Inscribed Stock at $115\frac{1}{4}$. On 8th Aug. he purchased £10,000 New Zealand $3\frac{1}{2}$% Guaranteed Stock at $106\frac{3}{4}$. On these transactions the broker charged a commission of $\frac{1}{4}$%.

On 16th Aug. he sold the £10,000 New Zealand Stock at $108\frac{1}{8}$, and the £8,000 Victoria Stock at $104\frac{1}{4}$. The £12,000 Natal Stock was carried forward at 116, contango being charged at $\frac{1}{4}$%.

Show T. Oliver's Account in the broker's Ledger, ignoring contract stamps.

4% INSCRIBED STOCK

Dividends payable on 31st March, 30th June, 30th Sept., and 31st Dec.

Dr.

Date	Particulars	Nominal Value £	s.	d.	Dividends or Interest £	s.	d.	Capital or Principal £	s.	d.
19— Feb. 1	To Cash— Purchase of £10,000 Stock at 95 cum div. plus Brokerage $\frac{1}{8}$% and stamps and expenses £4 5s.	10,000	–	–	26	13	4	9,490	1	8
Dec. 31	" Transfer to Profit on Sale of Investments Account							73	15	10
" 31	" Transfer to Dividends and Interest Account				208	–	–			
	£	10,000	–	–	£234	13	4	£9,563	17	6
19— Jan. 1	To Balance b/d	5,000	–	–				4,745	–	10

Cr.

Date	Particulars	Nominal Value £	s.	d.	Dividends or Interest £	s.	d.	Capital or Principal £	s.	d.
19— Mar. 31	By Cash— Quarter's Dividend on £10,000 £100 – –; †*Less* Tax @ 4s. 20 – –				80	–	–			
May 1	" Cash— Sale of £3,000 at 97 cum div. *less* Brokerage $\frac{1}{8}$% and Expenses £1 6s.	3,000	–	–	8	–	–	2,896	19	–
June 30	" Cash— Quarter's Dividend on £7,000 £70 – –; †*Less* Tax @ 4s. 14 – –				56	–	–			
Aug. 31	" Cash— Sale of £2,000 at 96 ex-div. *less* Brokerage $\frac{1}{8}$% and Stamps and Expenses 19s.	2,000	–	–				1,916	11	–
Sept. 30	" Cash— Quarter's Dividend on £7,000 £70 – –; †*Less* Tax @ 4s. 14 – –; £56 – –				50	13	4	5	6	8*
Dec. 31	" Cash— Quarter's Dividend on £5,000 £50 – –; †*Less* Tax @ 4s. 10 – –				40	–	–			
" 31	" Balance (at cost) c/d	5,000	–	–				4,745	–	10
	£	10,000	–	–	£234	13	4	£9,563	17	6

* £2,000 Stock was in hand only 2 months; therefore 1 month's dividend on £2,000 must be credited to Capital.
† *This rate of tax has been used for convenience only.*

Dr. THOMAS OLIVER *Cr.*

19—					19—				
Aug. 5	To £8,000 Victoria Stock @ 102⅝ . . .	8,210	–	–	Aug. 16	By £10,000 New Zealand Stock @ 108⅛ . .	10,812	10	
	„ Commission . .	20	–	–		„ £8,000 Victoria Stock @ 104¼ . .	8,340		
	„ £12,000 Natal Stock @ 115¼ . . .	13,830	–	–		„ Balance c/d— £12,000 Natal Stock @ 116 . . .	13,920	–	
	„ Commission . .	30	–	–					
8	„ £10,000 New Zealand Stock @ 106¾ . .	10,675	–	–					
	„ Commission . .	25	–	–					
16	„ Cash	282	10	–					
		33,072	10	–			33,072	10	–
Aug. 17	To Balance b/d— £12,000 Natal Stock @ 116 . . .	13,920	–	–					
	„ Contango . . .	30	–	–					

Note 1. Brokerage or Commission is usually charged on the *nominal* value of the Stock bought or sold.

Note 2. When Stocks are bought and sold again in the same period of account, commission is charged only *once*.

Note 3. Some brokers include the contango commission in the old period of account.

TABULAR SYSTEM OF BOOK-KEEPING

Characteristics of System. The Tabular or Columnar System is a method of book-keeping in which items are subjected to continuous analysis or classification, thereby saving the trouble of periodical dissection and summarizing. A "total" column should always be provided, so that the arithmetical accuracy of the analysis can be verified by means of cross-casting.

Advantages. The advantages of the system are that it is simple in application, and can be adapted to almost any book, whether a book of account or a statistical book. It economizes time and saves labour. Tabulated details are often of great importance, and serve many useful purposes in modern business, affording data for comparison, estimating, etc., besides furnishing additional information.

Disadvantages. The disadvantages sometimes urged against the tabular system are that the books required to carry it out are often of unwieldy dimensions; that it is liable to error, as items may easily be analysed into wrong columns and thus vitiate the whole of the results.

Tabular Books of Account. Examples of tabular subsidiary books will be found in Departmental Purchases and Sales Books, in the Journal, Cash Book, Petty Cash Book, and Purchases Book shown in the working of the exercise on Self-Balancing Ledgers; in the Hotel Cash Book and Invoice Book on page 903; in the Trustee-in-Bankruptcy's Cash Book. Examples of tabular Ledger Accounts are given in the sections dealing with Departmental

Accounts, Branch Accounts, and Investment Accounts. Examples of tabular Ledgers will be found in the sections on Cost Ledger, Stores Ledger, Share Ledger, Bills Receivable and Payable Ledgers, and in the section on Hotel Visitors' Ledger on pages 904 and 905; the Consumers' Ledger, and the Rental Register, shown on page 906.

Explanation of Visitors' Ledger. By a glance at the Visitors' Ledger on pages 904 and 905 it will readily be observed that the ledger presents "tabulation" as applied to accounts in a convincing manner. It has been thought an advantage to students that a detailed explanation of this tabulated ledger may prove helpful. First, then, as to the various rulings.

The "horizontal" lines are spaced out in order to show items which are peculiar to the many services rendered and supplies provided for the visitors to the hotel; also it will be noticed that the horizontal lines serve to bring the charges for similar items to the various occupants of the rooms on the same line. As regards the services and supplies, they are enumerated one under another and ruled off under appropriate groups of which there are seven in the example. The groups distinguish items as under—

(1) *Residential Charges:* Apartments, Attendances, Baths, Fire and Lighting.

(2) *Board:* Breakfasts, Luncheons, Dinners, Dessert and Ices, Sandwiches, Tea and Coffee, Soups, Suppers, Servants' Board.

(3) *Wines.*

(4) *Spirits.*

(5) *Refreshments, etc.:* Ales, Stout, etc., Minerals, Cigars.

(6) *Sundries:* Stationery, Newspapers, Postages, Disbursements on behalf of Visitors, Washing, Carriage.

(7) *Billiards.*

Below these columns are shown the "credits" for the various visitors, together with the balancing figure—which figure must not be thought to represent a credit balance. It is the "debit" balance of the visitors' accounts entered on the credit side for the purpose of totalling the accounts only. The item "Ledger A/c" refers to balances of visitors' accounts transferred to the general ledger. The "perpendicular" lines are provided for "Room No." and name of occupant. On the right-hand page are three columns provided to show—

(*a*) *Daily Total,* which shows the total obligation (including visitors' balances due to date) of visitors under each item for the day.

(*b*) *Bt. forward,* which shows the total charge for items under each column brought forward from the previous day's total.

(*c*) *Cd. forward,* which shows the total amount due for supplies to date (i.e. current day's total plus charges brought forward), being the cumulative total chargeable to the visitors on individual items.

Having explained the uses to which the various columns are put a brief explanation of how this ledger is written up will be given.

Beginning on the first day of a month, the first line—"Balance brought forward"—will be filled with the amounts due from visitors

at this date. Next, the entries in the Day Book[1] are posted, each visitor being charged with the various items supplied to them during the day. At the end of each day the current day's page of the ledger is cross-cast, which operation is an effective check on the completeness and accuracy of entries made, and is an advantage peculiar to " tabulation " systems of recording transactions.

Tabular Statistical Books. Examples of these are seen in the Application, Allotment, and Call Books, in the Register of Transfers, etc., of a Joint Stock Company; in the Policy Registers of an Insurance Company; in Cost Accounts in the Wages Analysis Book, the Allocation of Stores Issued Book, Stores Received and Stores Issued Books, etc.; in the Register of Investments of an Investment Company, etc.

QUESTIONS ON CHAPTER XXIII

1. Define Single Entry. Is pure single entry ever found in business? State briefly the disadvantages of single entry.
2. How is profit or loss ascertained under single entry?
3. How would you convert a set of books from single entry to double entry?
4. What are Hire-Purchase Accounts? Explain the entries to be made (*a*) in the buyer's books, (*b*) in the seller's books. How is depreciation dealt with? What other method is there of dealing with Hire-Purchase Accounts?
5. What are Instalment-Payment Purchases? How do they differ from Hire-Purchases? What entries are necessary (*a*) in the buyer's books, (*b*) in the seller's books?
6. What is meant by a Royalty? Explain the terms Minimum Rent, Short Workings, Surface Rent, Acreage, Footage, Tentail, Dead Rent, Redeemable Dead Rent.
7. How are Short Workings treated in the books of account?
8. What two methods are there of dealing with Royalties in the books of account?
9. What are Investment Accounts? What special ruling is required? Explain the meaning of the terms cum div. and ex div., and their effect on the Investment Account. How are Investment Accounts balanced?
10. What is the Tabular or Columnar System? What are its advantages and disadvantages?

EXERCISE XXIII

1. Set out below is a Statement prepared by Mr. J. Brown, a cigarette manufacturer, claiming to show the result of his year's trading. Do you approve of the Statement? Give brief reasons in support of your views.

31st December, 19..

To Capital	£2,659	By Plant and Machinery	£5,059
" Sundry Creditors	9,850	" Furniture and Fittings	187
" Loan	2,000	" Goodwill	1,500
" Bank Overdraft	2,000	" Stock	6,451
" Balance, being profit for the year	1,591	" Sundry Debtors	4,484
		" Cash in hand	19
		" J. Brown, Private Drawings	400
	£18,100		£18,100

(*continued on page* 907) (*London Chamber of Commerce.*)

[1] Carefully study example of Day Book on page 903.

TABULAR INVOICE BOOK FOR HOTEL

Date	Name	Led. Fol.	Total	Provisions	Groceries	Ale, Beer, and Minerals	Wines, Spirits, and Liqueurs	Cigars, Cigarettes, and Tobacco	Furniture, Fixtures, and Fittings	House, Bed, and Table Linen	Cutlery, Glass, and Plate	Sundries

Dr. **TABULAR CASH BOOK FOR HOTEL** Cr.

Date	Visitors' Payments	Bar and Billiard Room Receipts	Date	Particulars	Led. Fol.	Total	Ale, Beer, and Minerals	Wines, Spirits, and Liqueurs	Cigars, Cigarettes, and Tobacco	Grocery and Provisions	Paid Out on a/c of Visitors	Wages	Petty Expenses

VISITORS'

MONDAY, 6TH

DEBITS	1			MRS. JOHNSON 2			MR. STONE 3			MRS. ANDREW 4		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Bal. bt. Forward												
Apartments ..					5			6			10	6
Attendance ..					2			2			2	
Baths ..								1				
Fire and Lights												
Boarders ..												
Breakfasts ..					3			2	6		1	6
Luncheons ..					1	6		2			2	
Dinners ..								5	6		4	6
Dessert and Ices												
Sandwiches ..												
Tea and Coffee					1	6					1	
Soups												
Suppers ..												
Servants' Board											8	
Wine								3				
Spirits ..								1				
Ales, Stout, etc.												6
Minerals ..									6			
Cigars												
Stationery ..												
Newspapers ..												
Postage ..												
Paid Out ..												
Washing ..												
Carriage ..												
Billiards ..												
TOTAL					13		1	3	6	1	10	
CREDITS.												
Overcharges ..												
Cash Received												
Ledger a/c ..												
Bal. car. Forward					13		1	3	6	1	10	
TOTAL					13		1	3	6	1	10	
Folio Ledger a/c Transferred to												

LEDGER

JUNE, 19..

5			DEBITS	Daily Total			Bt. Forward			Cd. Forward		
£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.
			Bal. bt. Forward									
			Apartments ..	1	1	6				1	1	6
			Attendance ..		6						6	
			Baths		1						1	
			Fire and Lights									
			Boarders ..									
			Breakfasts ..		7						7	
			Luncheons		5	6					5	6
			Dinners ..		10						10	
			Dessert and Ices									
			Sandwiches ..									
			Tea and Coffee		2	6					2	6
			Soups ..									
			Suppers ..									
			Servants' Board		8						8	
			Wine ..		3						3	
			Spirits ..		1						1	
			Ales, Stout, etc.			6						6
			Minerals ..			6						6
			Cigars ..									
			Stationery ..									
			Newspapers									
			Postage ..									
			Paid Out ..									
			Washing ..									
			Carriage ..									
			Billiards ..									
			TOTAL	3	6	6				3	6	6
			CREDITS									
			Overcharges ..									
			Cash received ..									
			Ledger a/c ..									
			Bal. car. Forward	3	6	6				3	6	6
			TOTAL	3	6	6				3	6	6
			Folio Ledger a/c Transferred to									

CONSUMERS' LEDGER

No. of Assessment	Street and Number	Rateable Value	Arrears brought forward Dr.	Half-Year's Charges Dr.	Extras Dr.	Total Amount due Dr.	Folio	Cash Received Cr.	Folio	Allowances Cr.	Total Cash and Allowances Cr.	Arrears carried forward Dr.
		£										
101	Winton Street 1 . .	25	10 –	1 5 –	5 –	2 – –	71	2 – –			2 – –	
102	Do. 2 . .	25		1 5 –		1 5 –	72	1 3 –	49	2 –	1 5 –	
103	Do. 3 . .	30		1 10 –	5 –	1 15 –	73	1 10 –			1 10 –	5 –

The above form of Ledger is suitable for a Gas, Water, or Electric Light Company.

RENTAL REGISTER

Situation of Property	Annual Rental Dr.	Arrears brought forward	Quarter ending March	Quarter or Half-Year ending June	Quarter ending Sept	Quarter or Half-Year ending Dec	Total Cash Received Cr.	Allowances		Arrears carried forward Dr.
								Property Tax Cr.	Repairs Cr.	

2. Describe the steps you would take in order to prepare a Trading Account, Profit and Loss Account, and Balance Sheet from a set of books which had been kept upon the Single Entry system. (*London Chamber of Commerce.*)

3. Describe briefly how you would convert a set of books, which had been kept on Single Entry methods, into the Double Entry system. (*Royal Society of Arts.*)

4. Robert Webber keeps his books by the Single Entry method. His financial position on 1st January was as follows—

	£	s.	d.		£	s.	d.
Cash in hand . .	12	10	–	Sundry Debtors .	421	10	–
Stock-in-Trade .	642	15	–	Machinery and Plant	981	–	–
Fixtures and Fittings	89	–	–	Sundry Creditors .	1,209	15	–
Cash at Bank . .	153	–	–				

During the year, Robert Webber withdrew from the business, for private purposes, the sum of £480.

On 31st December, Webber's financial position was as follows—

Machinery and Plant, £1,350 10s.; Fixtures and Fittings, £80 10s.; Sundry Debtors, £732; Stock-in-Trade, £950 10s.; Cash in hand, £15; Bank overdraft, £500; Sundry Creditors, £1,400 10s.

From the above particulars, prepare a Statement showing the profit made by Webber for the year ended 31st December. When preparing this statement, no depreciation need be written off any of the assets, and no provision for Bad and Doubtful Debts is necessary. (*London Chamber of Commerce.*)

5. A keeps his books by Single Entry. On 1st January his Capital was £6,900. An analysis of his cash book for the year gives the following particulars—

Debit Side	£
Received from Sundry Debtors	6,000
Paid in on Capital Account	500

Credit Side	£
Due to Bank, 1st January	740
Payments to Sundry Creditors	2,500
General Expenses of Business	1,000
Wages	1,550
Drawings	300
Balance at Bank, 31st December. . . .	400
,, in hand	10

Debtors at 1st January	were	£5,300,	and at 31st December	were	£8,800
Creditors	do.	£1,500	do.	do.	£1,950
Stock .	do.	£1,700	do.	do.	£1,900
Plant and Machinery	do.	£2,000	do.	do.	£2,000
Furniture and Fittings	do.	£140	do.	do.	£140

From the above material, prepare a Profit and Loss Account for the year ended 31st December, and a Balance Sheet at that date, after providing 5 per

cent Interest on Capital (ignoring payments in and drawings), 10 per cent Depreciation on Plant, 5 per cent Depreciation on Furniture, and a Reserve of 5 per cent on Sundry Debtors. (*Chartered Accountants.*)

6. The following item appeared amongst the assets of a colliery company, of which you are the auditor; Shortworkings, £2,868.

Explain its meaning, whether, and on what conditions, you would allow it to be treated as an asset. (*Chartered Accountants.*)

7. The Hard Coal Colliery Co., Ltd., agreed to purchase from the International Wagon Co., Ltd., 100 railway wagons, at the price of £50 per wagon, paying for the same by half-yearly instalments of £300, such instalments to include interest on the unpaid purchase money at the rate of 7 per cent per annum.

The date of the purchase was 1st January, and the first half-yearly instalment was due 1st July.

Write up the Hard Coal Colliery Co.'s Account in the Wagon Co.'s books for three years, and also write up the Wagon Account in the Colliery Co.'s books for the same period. (*Chartered Accountants.*)

8. On 1st March, the B. S. Coal Co. obtained wagons on the hire-purchase system. The price of the wagons was £1,150. Payment was to be made, as to £150 down and as to the balance at £200 per year with 5 per cent interest.

The B. S. Coal Co. write off 10 per cent depreciation each year.

Construct the necessary Ledger Accounts in the books of the Company, showing in detail the entries. (*Incorporated Accountants.*)

9. A Gas Company deals in Stoves on the hire-purchase system. On 1st January A purchased a stove from the Company for 55s., to be paid by twelve equal quarterly instalments of 4s. 6d. each.

The stove cost the Gas Company 37s. 6d.

The four quarterly instalments payable in the first year were duly received by the Company.

How should these transactions appear in the Company's Ledger, so that the year is credited with its proper proportion of the profit earned? (The question of depreciation can be disregarded.) (*Chartered Accountants.*)

10. A Colliery Co. purchases Wagons on the hire-purchase system over a period of five years, payable by annual instalments of £500. The Wagon Co. charge Interest at the rate of 5 per cent per annum on the yearly balances. Show the accounts in the books of (*a*) the buyer (depreciation at 10 per cent per annum), (*b*) the seller.

11. A Colliery Co. purchases on the instalment-payment system a number of Coal Wagons, to be paid for by five annual instalments of £500 each. The Wagon Co. charge Interest at 5 per cent per annum on yearly rests. Write up the accounts in the books of (*a*) the purchaser (depreciation 10 per cent per annum), (*b*) the vendor.

12. Explain briefly, by means of *pro forma* examples, how Royalties and Short Workings, arising out of a mining lease, are dealt with in the books of the lessee of a colliery. (*Royal Society of Arts, Accounting and Banking.*)

13. On the 1st January, Jas. Fincham became the lessee of a Chalk Pit on

the terms of paying a minimum or dead rental of £1,000 per annum, merging in a royalty of 4d. per ton. The output in the first year was 30,000 tons, in second year it was 40,000 tons, and in third year 70,000 tons. Show how you would deal with the Royalty and Rental in Fincham's books, the lease providing that dead rent not merged in royalty could be deducted out of future royalty in excess of the minimum, on the footing that Fincham would in the course of five years have increased the output to at least 300,000 tons. (*Chartered Accountants.*)

14. A Colliery Co. acquires a lease of a mineral area for a term of sixty years at a minimum certain rent of £500 per annum, merging into a royalty of 6d. per ton on coal worked in periods, each of three years. Assuming the royalties on coal worked during the first year amounted to £100, in the second year £400, and in the third to £700 (leaving £300 of certain rent forfeited), make Journal and Cash Book entries, and post to Ledger Accounts on the basis of the first two years' rent having been paid at the end of each year, and the rent of the last year being unpaid, showing the amount chargeable to Profit and Loss in each year. (*Chartered Accountants.*)

15. A colliery is worked under a lease granted by the Lord of the Manor, at a royalty of 6d. per ton, but with a minimum annual rent of £1,200, with power to recoup short workings. During the first year, 40,000 tons are raised; second year, 44,000 tons; third year, 52,000 tons; fourth year, 50,000 tons.

Make out Ledger Accounts for Royalties, Lord of the Manor, and Overpaid Royalties; and say how you would deal with the balance of Overpaid Royalties when making up the Annual Accounts. (*National Union of Teachers.*)

16. The Coal Mine Co., Ltd., took a lease of a colliery from G. Risch for 99 years from 29th September, at a ground rent of £50 a year, payable half-yearly, and a royalty of 6d. per ton, with a minimum royalty of £80 a year, payable half-yearly. During the first year the Company raised 2,500 tons, and during the second year ended 29th September, 4,000 tons. The several amounts to G. Risch were paid 21 days after becoming due. Write up both Personal and Nominal Accounts, and balance them at the end of each year. (*Chartered Accountants.*)

17. The George C. Waud Finance Corporation, Ltd., hold a large number of investments. Explain briefly what records you would advise the Company to keep relative to their investments. Give a *pro forma* ruling of the Ledger Account you recommend, and enter therein not more than six items. (*London Chamber of Commerce.*)

18. Show by the Ledger entries *only* what the total amount of an Investment Account would be at the end of six years' Compound Interest (yearly) 2½ per cent—neglect fractions of a penny. The amount invested *yearly* is £250. (*National Union of Teachers.*)

19. Prepare the necessary accounts, relative to the undermentioned investment, which would appear in W. A. Richardson's Ledger—

> On 1st June, Richardson purchased £5,000 New Zealand 3 per cent (1945) Stock at 85¼ plus 2s. 6d. per cent brokerage and 45s. stamps, etc. On 3rd April, 2 years later, Richardson sold £4,000 of the Stock at 89, and paid £6 7s. expenses.

Interest upon the stock is payable half-yearly on 1st April and 1st October, less tax (to be taken at 1s. 2d. in the £). (*Royal Society of Arts.*)

20. Ulrich Brünner purchased, on 3rd August, £1,150 Canadian Western Railway Co. 5% Debenture Stock at 85½%, and paid £10 3s. for stamps, commission, etc. On 29th April next, Mr. Brünner sold the Stock at 88% and paid £11 1s. expenses. The debenture interest is payable half-yearly, on 1st April and October, less tax (to be taken at 1s. 2d. in the £). Prepare the accounts, showing the history of this investment, as they should appear in Mr. U. Brünner's ledger. (*London Chamber of Commerce.*)

21. Describe the best method of keeping the accounts relating to the investments of an individual or a firm, and record the following transactions in the books you would recommend—

On 3rd May, Robert Rene bought £2,000 Arcadian Government 5% Bonds at 95 plus 2s. 6d. per cent, brokerage and 18s. stamps.

On 30th September of the following year he sold £1,000 of these Bonds at 98 less £3 10s. expenses. Interest on the Bonds is payable on 1st January and 1st July in each year.

Ignore all questions of Income Tax. (*Royal Society of Arts, Accounting and Banking.*)

22. The following transactions A B had with his London broker, John Statham—

On the 18th March he buys £15,000 New Zealand 3½% 1940 Stock at 106¾, £7,000 Victoria 4% 1881 Inscribed at 104⅝, and £5,000 Natal 4% Inscribed 1937 at 119¼. On these transactions the broker charges a commission of ⅛%.

On the 25th March he sells the New Zealand Stock at 107¼ and the Natal Stock at 120½, the Victoria Stock being carried forward, Contango being charged of one-eighth.

You are asked to show how these transactions would appear in John Statham's Ledger. (*London Chamber of Commerce.*)

23. F. Reynolds holds £10,400 of 2½% Consols, which cost him, including brokerage and expenses, £8,333 2s. Show the Ledger Account of the investment for one year, dividends being payable on 5th January, 5th April, 5th July, and 5th October.

24. A Company purchased on 1st March £24,000 of 4% Blank Preference Stock at 90, dividends being payable on 31st March, 30th June, 30th September, and 31st December. Stamps and expenses amounted to £10 16s., and brokerage of ⅛% was charged. On 1st June, £6,000 of Stock was sold for cash at 92, less brokerage one-eighth and expenses £2 14s. On 1st September, another £6,000 of Stock was sold for cash at 91 *ex div.* less brokerage ⅛% and charges £2 14s. The market price on 31st December, the date of the annual Balance Sheet, was 89. Show the Ledger Account of the investment recording the above transactions and the receipt of the quarterly dividends, and balance it as on 31st December.

25. Philip Snowflake had the undermentioned transactions with his broker on the London Stock Exchange—

On 16th July he bought £15,000 Mexican Ordinary at 46¾; on 21st July, £14,000 South-Eastern at 32¼; on 23rd July, £16,000 North-Western at $69\frac{7}{16}$. On these transactions the broker charged a commission of ⅛%. On 24th July, Snowflake sold the South-Eastern at 34. On the 30th July, Snowflake carried forward the Mexican Ordinary and North-Westerns at 47 and $69\frac{11}{16}$ respectively, contango being charged at ⅛% on each stock.

Show Snowflake's account in the broker's Ledger.

26. Briefly explain the principles of the Columnar or Tabular system of book-keeping.

Illustrate the advantages of this system by means of *pro forma* rulings of a Cash Book, or other book of first entry, suitable for use in a small hotel. (*London Chamber of Commerce.*)

27. Prepare a form of a Columnar Ledger suitable for use in a small hotel, and enter the following details—

Tuesday, 17th January: Visitors' accounts—J. Hughes (Room 1): Balance from previous day, £1 12s. 6d.; Apartments, 7s. 6d.; Breakfast, 2s. 6d.; Lunch, 3s. 6d.; Dinner, 5s.; Wine, 8s. 6d.; Spirits, 9d.; Cigars, 1s.; Postages, 6d.; Laundry, 3s. 4d. F. J. Griffiths (Room 5): Apartments, 5s.; Breakfast, 2s. 6d.; Tea, 1s. 6d.; Supper, 2s.; Liqueurs, 9d.; Minerals, 1s.; Bath, 1s.; Fire, 1s. J. E. Elliott (Room 3): Balance from previous day, £2 10s. 6d.; Breakfast, 2s. 6d.; 'bus to Station, 6d.; Cash received in settlement of bill, £2 13s. 6d. (*London Chamber of Commerce.*)

28. Rule a form of Consumers' Ledger suitable for a Water, Gas, or Electric Light Co., and make therein six *pro forma* entries, and explain the method of working. (*Chartered Accountants.*)

29. Give the ruling of a Rates Ledger suitable for a Water Co. or municipal body, and illustrate its use by inserting a few items. (*Chartered Accountants.*)

30. Draw up the form of a Tabular Day Book suitable for a hotel; also make six entries therein.

REVISION EXERCISE XXIII

1. Explain what is meant by the following—

(*a*) Reconciliation Statement.
(*b*) Lease Redemption Account.
(*c*) Deferred Shares.
(*d*) Rebate Account.

(*National Union of Teachers.*)

2. In closing the books of a manufacturing firm, how would you arrive at the amount representing the value of "work in progress"? How would such an item be treated in the annual accounts? (*Royal Society of Arts, Accounting and Banking.*)

3. What is a Cost Account? Give a specimen of a Cost Account suitable for use in some manufacturing business with which you are acquainted, giving both the ruling of such account, and also entering not less than six and not more than twelve items of cost relating to that particular manufacture. (*Royal Society of Arts.*)

4. Upon being appointed book-keeper to The Whirlwind Automobile Co., Ltd., you find that 10 cars have been sent to various people for trial purposes, "on sale or return." These transactions, however, have been passed through the Company's books as actual sales at full list prices amounting in all to £5,750.

Is this correct? If not, what rectifications of the accounts would be necessary? How should such transactions be treated in the Company's annual accounts as prepared for publication? (*London Chamber of Commerce.*)

5. Is the Profit and Loss Account, as set out below, properly drawn up? If not, submit the account as you would present it.

PROFIT AND LOSS ACCOUNT, 31*st December*

To Salaries	£820	By Stock	£18,200	
„ Depreciation	1,401	*Less* 1st January	17,400	
„ Purchases	42,600			£800
„ Returns	362	„ Int. on Investments	3,400	
„ Discounts	421			
„ Dividend paid	3,842	*Less* Loss on Sale of Investments	900	
„ Directors' Fees	1,000			
„ Trade Expenses	1,200			2,500
„ Dividend (5% for year)	6,200	„ Balance from last year's account		4,321
„ Manufacturing Wages	3,280			
„ Transfer to Reserve A/c	4,000	„ Sales		59,940
„ Balance carried to B/S	2,876	„ Error in Books		120
		„ Unclaimed Dividends		321
	£68,002			£68,002

(*Royal Society of Arts, Accounting and Banking.*)

6. How would you deal with the undermentioned items when preparing the Annual Accounts of a Limited Company?

1. Transfer of £5,000 to Reserve Fund.
2. £750 Commission and Expenses incurred in the issue of £8,000; 4% Debentures repayable in 8 years from the date of issue.
3. Transfer of £3,500 to the Company's own Marine Insurance Fund.
4. An issue of 100 5% Debentures of £100 each @ 95, repayable in 10 years from the date of issue at par. (*London Chamber of Commerce.*)

7. Two branches of O'Conner & Co., Halifax, received all their goods at cost price from the Head Office. All Cash received is paid to Head Office daily.

From the following particulars, prepare Profit and Loss Accounts of the Branches for the 12 months ended 31st December —

	Alm Rd.	Beech Rd.
	£	£
Rent Account	220	300
Wages and Expenses	515	403
Stock, 1st January	550	840
„ at end of year	430	901
Goods from Head Office	9,170	5,050
Cash paid to Head Office	7,000	6,470
Goods returned to Head Office	5	10
Sundry Debtors, 1st January	215	107
„ „ 31st December	195	93

(*Civil Service, Customs and Excise.*)

8. The Patent Rice Food Co., Ltd., was registered as a Private Company in December, 19—, with a nominal Capital of £32,000, divided into 30,000 Ordinary Shares of £1 each, and 200 Founders' Shares of £10 each. The latter shares were issued, as fully paid, to the inventor of the patent food, in consideration for the licence granted by him to the Company for the sole

right to manufacture under his patent. The inventor and his friends subscribed for, and were allotted, 20,204 Ordinary Shares, upon which 12s. 6d. per share was called up.

The Company started business on 1st January, and on 30th September an interim dividend of 4%, free of tax, was declared and paid on the paid-up portion of the Ordinary Shares.

On 31st December, the Ledger balances of the Company, in addition to those represented by the above transactions, were as follows —

	£	s.	d.		£	s.	d.
Advertising	1,668	–	–	Office Furniture	219	–	–
Bank Loan	2,000	–	–	„ Salaries	472	–	–
Bills Payable	4,741	–	–	Preliminary Expenses	113	–	–
Calls in Arrear	2	10	–	Purchases	5,816	–	–
Carriage	977	–	–	Rent, Rates, Lighting, and Insurance	247	–	–
Cash at Bank	1,311	–	–	Sales	8,862	–	–
Sundry Debtors	3,592	–	–	„ Returns	119	–	–
Discount on Purchases (*less* Discount on Sales)	93	–	–	Stationery and Office Expenses	77	–	–
Electrical Power for Factory	151	–	–	Sundry Trade Creditors	1,427	–	–
Extension of Leasehold Premises	2,500	–	–	Travellers' Salaries and Expenses	1,166	–	–
Interest on Bank Loan	65	–	–	Wages	2,299	–	–
Machinery Purchased	8,451	–	–				

The Stock-in-hand, as on 31st December, was valued and certified by the Managing Director at £3,075.

You are required to prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.

Before preparing these accounts, the following adjustments are necessary. (Give the Journal entries.)

(*a*) The Directors decided to write off Depreciation on the Machinery at the rate of 10% per annum for the 6 months during which the machines had been running.

(*b*) The Directors decided that, as the full benefit had not yet been derived from the expenditure upon Advertising and Travellers' Salaries and Expenses, the former item should be spread over 3 years (current year to bear a full share), and that one-half of the latter should be carried forward to next year.

(*c*) On investigation, it was discovered that the Carriage Account contained items amounting to £236, representing Freight on Machinery erected at the factory, and it was decided to transfer this amount to the Machinery Account. It was also found that the Wages Account included £93, representing the wages of men employed in erecting the machinery; it was decided to treat this item in the same manner.

(*d*) One quarter's Rent of the factory, amounting to £52, was owing on 31st December, and must be reserved for.—(*Royal Society of Arts.*)

CHAPTER XXIV

DOUBLE ACCOUNT SYSTEM

What the Double Account System Is. The Double Account system is a method of stating the financial position of companies incorporated under special Acts of Parliament for the purpose of acquiring or constructing, and working, large public undertakings such as railways, tramways, gas works, electric light installations, etc.

Difference between Single Account and Double Account Systems. Under the Single Account system, the assets and liabilities are all grouped in one final account, called the Balance Sheet. Under the Double Account system, the Balance Sheet is divided into two parts, the first part, called the Capital Account, dealing with the *fixed* or permanent assets and the Capital and Debentures subscribed, and the second part, called the General Balance Sheet, dealing with the *floating* assets and floating liabilities. In the Single Account system the assets appear in the Balance Sheet less any depreciation written off them. In the Double Account system the assets are not written down in the Capital Account, but appear therein at cost.

Capital Account. This is the first part of the Double Account Balance Sheet. It contains the balances of the different items of Receipts and Expenditure on capital account, as they appear in the special Capital Account Ledger. On the *credit* side are receipts from shares or stock and debentures, including premiums, and on the *debit* side are the various assets on which the money so received has been spent. It will be noted that Parliamentary Expenses in promoting special Acts of Parliament, and also Law Charges in connection with land, appear as items of capital expenditure.

General Balance Sheet. This is the second part of the Double Account Balance Sheet. It includes the balance of the Capital Account (in Electric Light Companies the totals of each side), the floating assets such as Stocks, Debtors, Cash, etc., and the floating liabilities such as Creditors, Reserve Fund Account, Depreciation Fund Account, and Revenue Account balance.

Distinction between Capital and Revenue. The distinction between capital and revenue is carefully maintained under the Double Account system. *Capital Expenditure* consists of the various sums expended in constructing or acquiring and extending the undertaking. *Revenue Expenditure* comprises repairs, renewals, and all expenses of working and administration. *Capital Receipts* include all amounts received from shareholders, stockholders, and debenture holders. *Revenue Receipts* consist of all income earned by the undertaking. The surplus of revenue receipts over revenue

expenditure is considered to be profit, notwithstanding the fact that very often no provision has been made for depreciation.

Depreciation and Renewals. As previously mentioned, under the Double Account system assets are not written down in the Capital Account, as the undertaking is expected to be maintained in proper working order out of revenue. Depreciation is, however, provided for by charging Net Revenue Account with a fixed percentage on each asset and crediting all such amounts to a Depreciation Fund Account. In the case of Gas Companies, such funds are compulsory for leasehold works, and, in the case of Electric Light Companies, for leasehold works, buildings, plant and machinery; further, the funds must be represented by actual investments. Some companies also build up a Repairs and Renewals Reserve, by debiting a fixed amount to Revenue Account. Actual repairs and renewals are then charged to the Reserve instead of to the Revenue Account. The operation of such a Reserve has already been explained in the chapter on Depreciation. It has the effect of averaging such charges, and thus prevents a very large item of expenditure in any one year reducing the normal rate of dividend, or rendering it impossible to pay a dividend at all.

Advantages of the Double Account System. The chief advantage of the Double Account System is that the Capital Account, being of the nature of a Cash Account, would be readily understood by shareholders and others not knowing book-keeping or accountancy. It can easily be seen, on one side, how much money has been obtained from shareholders and debenture holders, and, on the other side, how such money has been spent and also how much remains to work the undertaking.

Disadvantages of the Double Account System. The disadvantages attaching to the system are—

(1) *The profits of the various years are not correctly shown.* Fixed assets having to be replaced out of revenue, involve a heavy charge against the particular year in which the renewal takes place. Although the asset has been rendering the same service year by year, yet the previous years, which should have borne an equal part of the charge for renewal, have borne no part at all. The profits of those particular years have, therefore, to this extent been over-stated and consequently the profits of the year of renewal will be considerably under-stated. This defect can, of course, be remedied by providing a Repairs and Renewals Reserve.

(2) *The Balance Sheet is not a true representation of the state of affairs.* As the assets have not been depreciated, they appear in the Balance Sheet at cost, although they may have been a very long time in use, may be worn out, or may have become obsolete.

Additions and Extensions. Additional assets acquired are, of course, added to the Capital Account. It often happens, however,

that replacements are accompanied by additions or extensions of the original asset, and the cost of such extensions has then to be allocated between capital and revenue. There are two methods of doing this. The first way is to write off to revenue the value of the asset as it appears in the Capital Account; and to charge to capital the whole cost of replacement, including extensions. Thus, if an asset, standing in the books at £120,000, was renewed and enlarged at a cost of £160,000, the £120,000 would be written off to revenue and the £160,000 would be charged to capital. The second way is to estimate the present cost of replacing the asset exactly as it stands, i.e. without any extensions or additions, and to charge this amount to revenue; the difference between this amount and the actual sum expended is considered to be the proper amount to charge to capital. Thus, taking the previous example, suppose the estimated cost of replacing the asset as it stands is £100,000; then £100,000 would be charged to revenue, and the balance of £60,000 would be debited to capital. The respective allocations under the two methods therefore are—

	Capital	*Revenue*
First Method	£160,000	£120,000
Second Method . . .	180,000	100,000

Whatever sum of money is obtained by the sale of old material is credited to Revenue Account, not as a separate item on the Income side, but on the Expenditure side, as a deduction from the cost of replacement.

The principles governing the application of the " double account " system having been outlined, it is now proposed to give a general view of the forms of account prepared by companies who adopt the double account method of presenting their financial position.

The companies whose forms of accounts are to be elaborated are those of—

I. Railway Companies.
II. Gas Companies.
III. Water Companies.
IV. Electric Light Companies.

I. RAILWAY COMPANIES

The accounts of railway companies are prepared according to forms prescribed in the First Schedule to the Railway Companies (Accounts and Returns) Act, 1911. The Act directs that every railway company shall prepare—annually—accounts and returns in the forms set out in the First Schedule for submission to the auditors to the company; also that the company must forward six copies of such accounts and returns to the Board of Trade not later than sixty

days after the end of the financial year to which the accounts and returns relate. Further, a copy of the accounts numbered I*a*, I*b*, I*c*, 3, and 18 must also be filed with the Registrar of Companies in England Should, however, parts of the railways be situated in Scotland or Ireland, then a set of these same accounts must be filed with the Registrars of those countries. It must be observed that upwards of fifty forms of accounts and returns are prescribed by the Railway Companies (Accounts and Returns) Act, 1911, and it is obviously outside the scope of a textbook dealing with so wide a range of specialized accounts to give information upon all the different forms of accounts and returns. Only those forms have been explained and illustrated which contain in a condensed form the material facts arranged to show the financial position of a railway company. Forms not dealt with in the text are mainly of a statistical character and contain elaborate details of the almost multifarious operations of a railway company. The following are the forms chosen for treatment—

(*a*) No. 4. Receipts and Expenditure on Capital Account.
(*b*) No. 8. Revenue Receipts and Expenditure of the Whole Undertaking.
(*c*) No. 9. Proposed Appropriation of Net Income.
(*d*) No. 18. General Balance Sheet.

(*a*) Receipts and Expenditure on Capital Account (No. 4). This account, as already stated, represents the FIRST part of the Balance Sheet as prepared under the double account system. It contains a statement of the *fixed* assets of the company, and a statement of the shareholders' capital, debentures, and other receipts of a capital nature. In a word, this account shows that the money subscribed by the shareholders and debenture holders has been spent in acquiring the permanent assets of the concern.

Although elaborately set out, this account is planned on exactly the same principle as a simple ledger account. This fact seems to be overlooked by students when dealing with accounts of this kind. Now, the account under treatment has a DEBIT side and a CREDIT side, and the items recorded therein will be—

(1) On the DEBIT side—

(*a*) Particulars of those permanent assets acquired specifically for the undertaking as a railway, and comprising the following items—

Lines open for traffic.
Lines NOT open for traffic (being " new " and/or " widening " of existing lines).
Rolling Stock.
Manufacturing and Repairing Works and Plant.

(*b*) Particulars of those permanent assets acquired for use upon the other ramifications of the railway's activities, and comprising the following—

Horses.	Hotels.
Road Vehicles.	Electric Power Stations.
Steamboats.	Land, Property, etc., not forming part of the Railway or Stations.
Docks, Harbours, Wharves, etc.	

(2) On the CREDIT side—

Particulars of capital subscribed by the shareholders, debenture holders, and receipts of a capital nature represented by premiums on shares and debentures, etc.

The amounts extended in the "centre" money column on the debit side of this account are derived from Account No. 5, which contains exhaustive particulars of the expenditure on capital account for the current year.

As railway companies are "parliamentary" companies, the capital subscribed to such undertakings may only follow upon the exercise of capital powers conferred by special Acts of Parliament.

Particulars of the Nominal Capital authorized and created by the company, together with particulars of special Acts conferring capital powers so exercised, and particulars of capital powers not yet exercised, are contained in Account No. 1.

Particulars of capital subscribed are contained in Account No. 2, and it is from this account that the amount for "Stocks and Shares" on the credit side of Account No. 4 is taken. This account contains the following information in regard to subscribed capital—

(*a*) Shares and Stocks created.
(*b*) Amount issued.
(*c*) Nominal additions to (or deductions from) capital.
(*d*) Amount ranking for dividend at a future date.
(*e*) Calls in arrear.
(*f*) Amount uncalled.
(*g*) Amount unissued.

The above particulars are amplified by details of the class of shares and stocks with qualifications as to their right to preferential or fixed dividends.

The classes of shares issued by railway companies are—

(1) Guaranteed (or Preference).

These shares carry a fixed rate of interest.

(2) Ordinary (Preferred and Deferred).

These shares carry no immediate right to profits, but are considered for such a portion of the profits as the directors may at their discretion provide.

Having dealt with the subscribed capital of a railway company, it is now necessary to give a few particulars as regards " Debentures." Railway companies cannot exercise their borrowing powers until at least one-half of the ordinary share capital has been paid up. Additional capital is raised by means of loans and debentures.

Particulars of Debenture Stock are contained in Account No. 3, and the details therein are as follows—

(*a*) Amount of Stock.
(*b*) Nominal Additions and Conversions.
(*c*) Total Debenture Stock.

In addition to the above, the account contains information relating to interest payable on each issue; and it must be stated that the item " Debentures " in Account No. 4 is taken from this account.

The balance of the Receipts and Expenditure on Capital Account is transferred to the General Balance Sheet (Account No. 18) and appears as the first item on the debit or credit side, as the case may be.

(*b*) **Revenue Receipts and Expenditure of the Whole Undertaking** (No. 8). This account contains a statement of the Gross Receipts and Expenditure of the undertaking, together with particulars of receipts of a miscellaneous character. The account is prepared from Statements numbered from 10 to 16 inclusive, these statements showing particulars of—

STATEMENT NO.—

10. Railway.
11. Omnibuses, etc.
12. Steamboats.
13. Canals.
14. Docks, Harbours, and Wharves.
15. Hotels, etc.
16. Other separate businesses carried on by the company.

The column in this account " Net Receipts," contains the difference between gross receipts and expenditure on each item; to these amounts is added the various amounts under miscellaneous receipts, and the resulting total is carried to Account No. 9 as " net income."

(*c*) **Proposed Appropriation of Net Income** (No. 9). This account contains particulars of—

A { (1) Balance of available profits brought forward from last year.
(2) Current year's *net* income.
(3) Appropriations from Reserve (if any).

B Enumeration of *fixed* charges that have been met and are chargeable to the account for the current year.

C
- (1) Appropriations to special Reserves.
- (2) Dividends on guaranteed stock, etc.
- (3) Balance available for dividends on Ordinary Stock.
- (4) Balance carried forward to next year's account.

(*d*) General Balance Sheet (No. 18). This statement contains, as does all balance sheets, the final results designed to show the *financial* position of a railway company as at a certain stated date. This is the SECOND part of the balance sheet as provided under the double account system, and—apart from the "balance of capital" it contains on its Assets side only floating assets as represented by: (*a*) Cash, (*b*) Debtors, (*c*) Stores, etc. The Liabilities side contains —apart from the "balance of capital," the following representative items—

Sundry Creditors.
Amounts due to other Railway Companies.
Superannuation Funds.
Fire Insurance Funds.
Depreciation Funds.
General Reserve Fund.
Balance available for dividends, as per Account No. 9.

In the accounts of a railway company the renewal of wasting assets is provided for by debiting the revenue account and crediting some suitable "depreciation" or "reserve" fund with sums considered sufficient to offset any wastage that may have arisen. The "fund" accumulates by the yearly addition to it of a certain sum which at a future date will be adequate to replace permanent assets that have depreciated. Any assets it may be proposed that at the end of their useful life shall not be replaced will be written out of the accounts by transfer to the depreciation (or Reserve) Fund.

Example of Statutory Accounts of a Railway Company

The following are the balances of a Railway Company for the year ending 31st December, 19—. Required the Capital and Summary of Revenue Accounts with Appropriation Statement.

Receipts on Capital Account—

	£
Ordinary, Preference, and Guaranteed Stocks to 31st Dec., 19—	7,500,000
Received during current year	100,000
Loans received by the Company	1,000,000
Debenture Stock	1,500,000
Premiums received on Shares and Stocks . . .	20,000
Premiums received on Debenture Stock . . .	36,500

No. 4. RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT

To Expenditure	Amount expended to 31st Dec., 19—	Amount expended during Year	Total
	£	£	£
Lines open for traffic	5,100,000	400,000	5,500,000
Lines not open for traffic—			
New lines	—	—	—
Widening of existing lines	500,000	200,000	700,000
Rolling stock	1,000,000	300,000	1,300,000
Manufacturing and repairing works and plant	800,000	100,000	900,000
Total Capital expended on Railway			8,400,000
Horses	80,000	—	80,000
Road Vehicles	10,000	1,000	11,000
Steamboats	400,000	—	400,000
Docks, Harbours, and Wharves	500,000	50,000	550,000
Hotels	200,000	—	200,000
Electric Power Stations	100,000	—	100,000
Land, Property, etc., not forming part of the Railway or stations	400,000	—	400,000
Total Expenditure			10,141,000
Balance to General Balance Sheet			15,500
			£10,156,500

By Receipts		Amount received to 31st Dec., 19—	Amount received during Year	Total
		£	£	£
Shares and Stocks		7,500,000	100,000	7,600,000
Loans		1,000,000	—	1,000,000
Debenture Stock		1,500,000	—	1,500,000
	£			
Premiums on Shares and Stocks	20,000			
Premiums on Debenture Stock	36,500			
Total Premiums	56,500			
Discounts on Shares and Stocks	—			
Discounts on Debenture Stock	—			
Total Discounts	—			
Balance of Premiums and Discounts				56,500
Total Receipts				10,156,500
Balance to General Bal. Sheet				—
				£10,156,500

No. 8. REVENUE RECEIPTS AND EXPENDITURE OF THE WHOLE UNDERTAKING

See Statement		Gross Receipts	Expenditure	Net Receipts
		£	£	£
10	Railway . . .	900,000	600,000	300,000
11	Omnibuses, etc. . .	—	—	—
12	Steamboats . .	90,000	30,000	60,000
13	Canals . . .	105,000	40,000	65,000
14	Docks, Harbours, and Wharves . .	120,000	60,000	60,000
15	Hotels, etc. . .	50,000	20,000	30,000
Miscellaneous Receipts (Net)—				
	Rents from Houses and Lands			5,500
	Rents from Hotels			9,500
	Interest and Dividends from Investments . . .			49,500
	Transfer Fees			65
	General Interest			290
				£579,855

No. 9. PROPOSED APPROPRIATION OF NET INCOME

		£
Balance brought forward from last year's account . .		65,000
Net Income as per Statement No. 8		579,855
Appropriation from Reserve		—
Total		644,855
Deduct: Interest, Rentals, and other fixed charges—	£	
Interest on Superannuation funds . .	3,000	
Rent Charges and Annuities . . .	15,000	
Chief Rents	1,500	
Interest on Loans	40,800	
Interest on Debenture Stocks . .	60,000	
Total . .	£120,300	120,300
		524,555
BALANCE.		
Appropriation to Reserve and other special purposes	84,000	
Dividends on Guaranteed and Preference Stocks	300,555	384,555
Balance available for dividends .		£140,000

No. 18. GENERAL BALANCE SHEET

Dr.			*Cr.*
	£		£
To Capital A/c balance at credit thereof as per A/c No. 4	15,500	Cash at Bankers and on hand	25,000
Sundry Creditors and Suspense A/cs	320,000	Investments in Consols and Government Securities	1,000,000
Amount due to Railway Clearing Houses	9,000	Other Securities	997,000
Superannuation Funds	150,000	Investment of Superannuation Fund	150,000
Fire Insurance Fund	400,000	Stock of Stores and Materials	115,000
Depreciation funds—		Outstanding traffic accounts	127,000
Railway	900,000	Amount due by Railway Companies	39,500
Steamboats	70,000	Miscellaneous accounts	51,000
General Reserve Fund	500,000		
Balance available for dividends as per A/c No. 9	140,000		
	£2,504,500		£2,504,500

Expenditure on Capital Account—

	£
Lines open for traffic	5,100,000
" " during current year	400,000
Lines not open for traffic—	
Widening of existing lines	500,000
" " " (during year)	200,000
Rolling Stock	1,000,000
" " (during year)	300,000
Manufacturing and repairing Works and Plant	800,000
" " " " (during year)	100,000
Horses	80,000
Road Vehicles	10,000
" " (during year)	1,000
Steamboats	400,000
Docks, Harbours, and Wharves	500,000
" " " (during year)	50,000
Hotels	200,000
Electric Power Stations	100,000
Land, property, etc., not forming part of the railway or stations	400,000

Revenue, Receipts, and Expenditure of Railway Company—

	Receipts £	*Expenditure* £
Railway	900,000	600,000
Steamboats	90,000	30,000
Canals	105,000	40,000
Docks, Harbours, and Wharves	120,000	60,000
Hotels, etc.	50,000	20,000

Miscellaneous Receipts. Net—

	£
Rents from Houses and Lands	5,500
Rents from Hotels	9,500
Interest and Dividends from Investments	49,500
Transfer Fees	65
General Interest	290

Charges on Net Revenue—

	£
Interest on Superannuation Funds	3,000
Rent Charges and Annuities	15,000
Chief Rents	1,500
Interest on Loans	40,800
Interest on Debenture Stocks	60,000

Balance from last year's Appropriation Statement	65,000
Appropriation to General Reserve	84,000
Dividends on Guaranteed and Preference Stocks	300,555

Cash at Bank and in hand	25,000
Investments in Consols and Government Securities	1,000,000
Other Securities	997,000
Investment of Superannuation Fund	150,000
Stock of Stores and Materials	115,000
Outstanding Traffic Accounts	127,000

	£
Charges on Net Revenue (*contd*).—	
Amount due by Railway Companies	39,500
Miscellaneous Accounts	51,000
Sundry Crs. and Suspense Accounts	320,000
Amount due to Railway Clearing Houses	9,000
Superannuation Funds	150,000
Fire Insurance Fund	400,000
Depreciation Funds—	
Railway	900,000
Steamboats	70,000
General Reserve Fund	500,000

(See pages 921-923.)

PARLIAMENTARY COMPANIES

A parliamentary company is one brought into existence by a special Act of Parliament, and which is governed by the special provisions contained in the Act under which it was formed.

Such companies are also subject to regulations laid down by the Companies Clauses Acts of 1845, 1863, 1869, 1888, and 1889. There are special " Clauses " Acts relevant to each class of parliamentary company, of which the following are relating to concerns whose accounts are dealt with in this chapter—

(*a*) The Railway Clauses Acts, 1845 and 1863.
(*b*) The Gas Works Clauses Acts, 1847 and 1871.
(*c*) The Electric Lighting Clauses Act, 1899.
(*d*) The Waterworks Clauses Acts, 1847 and 1863.

The application of the double account system of accounts is obligatory upon—

(1) Railway companies;
(2) Gas companies; and
(3) Electric light companies.

It must be clearly understood that the system of " double account " accounting *only* relates to the practice of showing the Balance Sheet (or financial statement) in Two parts, namely, " Capital Account " and " General Balance Sheet," the former containing a statement of FIXED assets and liabilities; the latter a statement of FLOATING assets and liabilities, together with the balancing figure from the capital account. The question of depreciation is differently dealt with under this system, being provided for by appropriate " funds," and not (as in most commercial undertakings) as annual adjustments of fixed assets by deduction from the various assets of amounts by which their values have depreciated.

The above observations have been made at the risk of repetition, because so many students seem to think the "double account" system is a modification of "double entry" book-keeping. The double entry system of accounts is rigidly adhered to under the "double" account system, the word "double" in the latter sense only relating to the matter noticed above.

II. GAS COMPANIES

Gas companies are usually owned by companies incorporated by special Acts of Parliament, or by Local Authorities.

Incorporated companies are regulated by—

(*a*) Gas Works Clauses Acts, 1847 and 1871.
(*b*) Companies Clauses Consolidation Act, 1845.

The above Acts contain general regulations applicable to Parliamentary companies. In the Gas Works Clauses Act, 1847, are set forth the special privileges and obligations relating to this class of undertaking. The more recent Act of 1871 prescribes the form of accounts which must be prepared by such companies, and also directs "that the accounts prepared in the prescribed form up to 31st December must be forwarded on—or before—25th March in each year to the Local Authority in which the company operates."

Local Authorities who own gas works are not obliged to prepare their accounts in the statutory form, but usually adopt them. The forms laid down by statute are nine in number and are entitled as under—

(A) Statement of Share Capital.
(B) Statement of Loan Capital.
(C) Capital Account.
(D) Revenue Account.
(E) Profit and Loss Account (NET Revenue).
(F) Reserved Fund Account.
(G) Statement of Coals.
(H) Statement of Residual Products.
(I) General Balance Sheet

Statements (A) and (B) contain particulars of the powers obtained under various special Acts for raising capital and loans, together with complete details of—

(*a*) Amount authorized.
(*b*) Maximum dividend.

(*c*) Interest payable.
(*d*) Total paid up.
(*e*) Amount unissued, etc.

The Capital Account (C) contains a statement of the permanent assets acquired against the money subscribed by the shareholders, debenture holders, and on loans therefor; the balance of which account is taken to the General Balance Sheet (Statement I).

The Revenue Account (D) is equivalent to a Profit and Loss Account as prepared by ordinary commercial concerns. It contains its items under appropriate sub-headings, they being—

On the Debit Side—	*On the Credit Side—*
(1) Manufacture of Gas.	(1) Sale of Gas.
(2) Distribution of Gas.	(2) Rental of Meters.
(3) Public Lamps.	(3) Sale of Residual Products.
(4) Management.	(4) Rents receivable.
(5) Law and Parliamentary.	(5) Other items.
(6) Sundries (if any).	

This account is of exceptional value for purposes of control of expenditure as each item is shown under the same grouping always and any appreciable difference in amounts would be quickly detected; also the relation of working expenses to turnover may be readily gauged. There is a growing tendency for general commercial concerns to adopt a similar method of arranging items of expenditure under appropriate sub-headings. The balance of this account is transferred to the Profit and Loss Account (NET Revenue) (E).

The Profit and Loss Account (NET Revenue) (E) serves a similar purpose to that of an Appropriation Account and contains particulars of—

(*a*) Amounts carried to Reserved Funds.
(*b*) Interest on Loans.
(*c*) Interest on Mortgages.
(*d*) Interest on Debenture Stock.
(*e*) Dividends on Shares.

The above items are charged against the balance of the Revenue Account, which is credited to this account.

The Reserved Fund Account (F) contains particulars of " profits " accumulated by transfers from the Profit and Loss Account (NET Revenue) (E), which fund should be represented by investments. Prior to making transfers to this " fund " the company must make proper provisions for dividends on shares at the standard rates.

Statements (G) and (H) contain particulars of " coal " and

"residuals" respectively. In the Statement of Coals there are columns provided to show—

(*a*) Description of coal.
(*b*) In store—beginning of year.
(*c*) Received during year.
(*d*) Coal carbonized, or used during the year.
(*e*) In store—end of year.

In the Statement of Residuals there are columns provided for—

(*a*) Description of Residual.
(*b*) In store—beginning of year.
(*c*) Made during year.
(*d*) Used in manufacture.
(*e*) Sold during year.
(*f*) In store—end of year.

The General Balance Sheet (I) contains on—

(I) *The Liabilities* (*Dr. side*) balances of the accounts (C), (E), and (F), and particulars of—

(*a*) Unpaid Dividends.
(*b*) Interest owing on Mortgages, Debentures, and Loans.
(*c*) Amounts due to Tradesmen.
(*d*) Outstanding Items, etc.

(II) *The Assets* (*Cr. side*) the following items—

(*a*) Cash at Bankers and on Deposit.
(*b*) Coals, Coke, and Breeze; Tar and other Products.
(*c*) Sundry Stores.
(*d*) Balance due to Company on Gas and Meter Rental.
(*e*) Debtors for Coke and other Residuals, etc.
(*f*) Gas Stoves.

A study of the above details comprising the General Balance Sheet will show that the items may be characterized as "floating" assets and liabilities, and that this statement is the *second* part of the financial statement prepared under the double account system.

The forms of account obligatory upon gas companies do not comprise a complete set of accounts as prepared for these undertakings. A Statement of the quantity of gas made and sold would be prepared. In addition, there may be other valuable statistical records published giving details of the other departments or operations of the company; their publications being entirely within the discretion of the management.

Examples of Statutory Accounts of a Gas Company (See pages 929–32).

C.—Capital Account

Dr. For the year ended 31st December, 19... *Cr.*

	Expenditure to 31st December, 19...	Expended this Year	Total to 31st December, 19...		Certified Receipts, 31st December, 19...	Received during Year	Total Receipts to 31st December, 19...
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
1. To Expenditure to 31st Dec., 19....				1. By Ordinary Shares of £.... each			
Since that Date.							
2. „ Lands Acquired, including law charges				2. „ ditto of £.... each ..			
3. „ New Buildings, Manufacturing Plants, Machines, Storage Works, and other structures connected with manufacture				3. „ Preference Shares of £...... each			
4. „ New Mains and Service Pipes (not being in place of old ones), including laying same, paving, and other works connected with distribution				4. „ Debenture Stock ..			
5. „ New Meters (not in place of old ones), including fixing				5. „ Mortgages and Bonds ..			
6. „ Cost of promoting Special Act				6. „ Amount received in anticipation of Calls ..			
7. „ Special Items (if any) ..							
Total expenditure							
To balance of Capital Account							
			£	Total			

D.—Revenue Account

Dr. For the year ended 31st December, 19... **Cr.**

Dr.	£ s. d.	£ s. d.
To Manufacture of Gas.		
1. Coals, including dues, carriage, unloading, and all expenses of depositing same on works..		
2. Purifying materials, oil, water, and sundries at works..		
3. Salaries of engineers, including chief engineer (if any), superintendents, and officers at works..		
4. Wages and gratuities at works		
5. Repairs and maintenance of works and plant (including renewal of retorts), machines, apparatus, tools, materials, and labour		
Less old material sold	£	
To Distribution of Gas.		
6. Salaries of surveyor, chief inspector, inspectors, assistant inspectors, and clerks in light office		
7. Repair, maintenance, and renewal of mains, and of service pipes, including materials, laying and paving, and labour		
8. Repairing, renewing, and refixing meters		
To Public Lamps.		
9. Lighting and repairing		
To Rents, Rates, and Taxes.		
10. Rents		
11. Rates and Taxes		
To Management.		
12. Directors' allowances		
13. Salaries of secretary, accountant, and clerks, office keepers, and messengers		
14. Collectors' commission or salaries		
15. Stationery and printing		
16. General establishment charges and incidentals.. ..		
17. Auditor		
To Law and Parliamentary Charges.		
18. Law		
19. Parliamentary (oppositions)		
20. To depreciation fund for works on leasehold lands (if any)		
21. To bad debts		
To other items (if any)		
Total expenditure		
Balance carried to Profit and Loss Account, E. ..		

Cr.	£ s. d.	£ s. d.
By Sale of Gas.		
1. Common gas (cubic feet), at / per 1,000 cubic feet		
2. Cannel gas (cubic feet), at / per 1,000 cubic feet		
3. Public lighting and under contracts		
4. Rental of meters		
By Residual Products.		
5. Coke, less labour and cartage		
6. Breeze " "		
7. Tar " "		
8. Ammoniacal liquor "	..	
9. By Rents..		
10. By Transfer Fees		
By Other Items (if any)		
Total receipts..	£	

E.—Profit and Loss Account (net revenue)

For the year ended 31st December, 19...

Dr.	£ s. d.	Cr.	£ s. d.
1. To Amount carried to Reserved Fund Account, F. (if any), from profits of 19..		1. By Balance of net profit brought from last account (31st December, 19..)	
2. „ Interest on temporary loans, and moneys received in anticipation of calls		2. „ Amount drawn from reserved fund (if any).. *Less* dividend paid for the half-year ended 31st December, 19..	
3. „ Ditto on mortgages and bonds accrued to 31st Dec., 19..		3. Balance brought from Revenue Account, D., being profit for year to December, 19..	
4. „ Ditto on debenture stock to ditto		4. Interest on moneys deposited	
5. „ Half-year's dividend on 1st preferential to 30th June, 19..			
6. „ Ditto, 2nd preferential to ditto			
7. „ Ditto on ordinary shares at......per cent ..			
„ Balance of net profit to be carried to next account subject to half-year's dividends to 31st December, 19.. ..			
£		£	

F.—Reserved Fund Account

For the year ended 31st December, 19...

Dr.	£ s. d.	Cr.	£ s. d.
1. Amount (if any) carried to Profit and Loss Account (E.) to make up deficiencies of dividends to 31st December, 19 ..		1. By Balance brought from last account	
2. Amount paid for extraordinary claim or demand (if any) ..		2. „ Balance brought from Profit and Loss Account (E.) ..	
3. Amount of balance to be carried to next account		3. „ Interest on amount invested	
£		£	

Like accounts must be given for depreciation fund for works on leaseholds, if any.

I.—General Balance Sheet

On 31st December, 19...

Dr.	£ s. d.		Cr.	£ s. d.
1. To Capital Account— Balance at credit thereof (Account C.) . . .			1. By Cash at Bankers	
2. " Profit and Loss Account— Balance at credit thereof (Account E.)			2. " " on Deposit or at interest	
3. " Reserved Fund— Balance at credit thereof (Account F.)			3. " Coals for Stock on hand, 31st December, 19..	
4. " Depreciation Fund (for works on leasehold lands)— Balance at credit thereof (Account F2.)			4. " Coke and Breeze . . " "	
5. " Unpaid Dividends			5. " Tar and other Products " "	
6. " Interest accrued and unpaid on Mortgages, Bonds, and Debenture Stock, and other Loans, to 31st Dec., 19..			6. " Sundry Stores " "	
7. " Sundry Tradesmen and others, for amount due for coals, stores, &c., to 31st Dec., 19..			7. " Gas and Meter Rental; balance of this account due to the company on 31st December, 19.., less deposits and prepayments..	
8. " Wages and Contingencies— Amount due to 31st December, 19....			8. " Coke and other Residual . . " "	
9. " Other Items (if any)			9. " Sundry Accounts . . . . " "	
			10. " Special Items (if any), including Investments	

Note 1. The Gas Works Clauses Act, 1847, limits the rate of dividend payable by Gas Companies to 10 per cent, prescribes a Reserve Fund up to $\frac{1}{10}$th of the Nominal Capital, and requires a copy of the annual accounts to be sent to the Clerk of the Peace for the county in which the Gas Works are situated.

Note 2. The Companies Clauses (Consolidation) Act, 1845, provides for the formation of Insurance and Reserve Funds, and introduces a sliding scale under which shareholders become entitled to larger dividends whenever the price of gas is reduced below the standard price.

III. WATER COMPANIES

Water companies usually adopt the double-account system, though under no statutory obligation to do so, and the general plan of their account keeping conforms to methods employed by gas companies. As there is " meter " control of supplies to consumers in both classes of undertakings it is easy to see that similarity in the preparation of accounts and statistical records must follow. (See Consumer's Ledger on page 906.) By the Water Works Clauses Act, 1847, a Water Company must not pay a dividend in excess of the prescribed rate—or if no rate is prescribed—in excess of 10 per cent of the paid-up capital. Any profit beyond the amount to meet the maximum dividends may be invested and allowed to accumulate at compound interest as a Reserve Fund. This 'fund' must not reach beyond a sum equal to a tenth of the nominal capital. Any profits derived from investments on account of the fund beyond the limit of one-tenth of nominal capital must applied to the general purposes of the company.

Water companies subject to the Act of 1847 must send an account for the preceding financial year on, or before, 31st January in each year to the Clerk of the Peace in the county where the waterworks are situated.

Forms of Accounts of a Water Company (See pages 934–936).

IV. ELECTRIC LIGHT COMPANIES

The Electric Light Act of 1882 prescribes certain forms of account for use by electric lighting companies. Other important regulations are provided by the Acts of 1888, 1899, and 1909; further, the Board of Trade applies some very stringent rules upon these undertakings. Electric light companies operate (as do gas, railway and water companies) under special Acts of Parliament; or under Provisional Orders granted by the Board of Trade, usually for a period of forty-two years.

As the business of an electric lighting company is so similar to that of a gas company, the same system of book-keeping is in vogue, and a comparison of a set of accounts for each class of undertaking will reveal how identical they are.

Provision for depreciation is compulsory upon electric light companies, and arises from the *non-permanent* character of these concerns, which it has been noted have a tenure of only forty-two years. At the expiry of the period local authorities have the option of purchase, hence it is clear that the fixed assets of these undertakings must be rigorously kept at proper valuations against the time when forced realization arises, because, when local authorities exercise their

STATEMENT OF STOCK AND LOAN CAPITAL, 31 DEC., 19..

Act of Parliament authorizing the issue	Description of Capital	Amount paid up	Remaining to be issued	Total amount authorized

Dr. **CAPITAL ACCOUNT FOR THE YEAR ENDING 31 DEC., 19..** *Cr.*

Expenditure	Amount Expended to 30th June, 19..	Amount Expended during Half-year	Total	Receipts	Amount Received to 30th June, 19..	Amount Received during Half-year	Total
To Purchase of Lands and Buildings				By "A" Ordinary Stock.. ..			
" Construction of Works				" "B" Ordinary Stock.. ..			
" New Mains and Service Pipes (not in place of old) and cost of laying same..				" Preferred Stock			
" New Meters (not in place of old) and cost of fixing				" Debenture Stock			
" Plumbing Plant and Tools ..				" Premiums			
" Parliamentary Expenses ..				" Amounts received in anticipation of Calls			
" Balance carried to Balance Sheet		£				£	

REVENUE ACCOUNT FOR THE YEAR ENDING 31 DEC., 19..

Dr.			Cr.		
To Expenses of Working and Maintaining—			By Water Rates		
Pumping Stations			„ Meter Rents		
Reservoirs					
Filters			„ Transfer Fees		
			„ House Services..		
„ Repairs and Renewals of Mains					
„ „ „ „ (General)					
„ Meter Expenses and Repairs					
„ Office Salaries					
„ Office Expenses					
„ Engineering Salaries and Expenses					
„ Printing, Stationery, and Stamps					
„ Law Expenses					
„ Income Tax					
„ Rates and Taxes					
„ Auditors' Fees					
„ Directors' Remuneration					
„ Balance carried down					
To Interest on Debenture Stock			By Balance, 1st Jan., 19..		
„ Dividend on Preference Stock..			„ Revenue A/c balance		
„ Balance (carried to Balance Sheet)			„ Interest on Deposits		

GENERAL BALANCE SHEET, 31 DEC., 19..

Balance of Capital A/c			Cash at Bank		
Balance of Revenue A/c			Cash in hand		
			Cash on Deposit		
Sundry Accounts due by Co.			Stores on hand—		
Interest accrued and unpaid on Debenture Stock			Pipes, Valves, Hydrants, etc.		
			House Stores		
			Water Rates accrued and due		
			Sundry Accounts due to Co.		

right to purchase, the undertaking would be taken over at "present" valuations. Obviously, provision for depreciation must be made, otherwise, on compulsory sale, serious financial embarrassment may arise for the vendors.

Appended are only a few of the prescribed forms of account for electric light companies. By Section 9 of the Act of 1882 copies of the accounts for the year ended 31st December must be forwarded to the Board of Trade on or before 25th March following.

Examples of Statutory Accounts of an Electric Light Company (See pages 938–944).

QUESTIONS ON CHAPTER XXIV

1. What is the Double Account System?
2. In what companies is the Double Account System compulsory? To what other companies is it specially suited?
3. Explain the difference between (*a*) Double Entry and Double Account System; (*b*) Single Account and Double Account Systems.
4. What are the distinguishing features of the Double Account System?
5. Describe briefly (*a*) the Capital Account, (*b*) the General Balance Sheet, peculiar to the Double Account System.
6. Distinguish between Capital and Revenue in the Double Account System. How are Depreciation and Renewals sometimes dealt with under the Double Account System?
7. What are (*a*) the advantages, (*b*) the disadvantages attaching to the Double Account System?
8. How are additions and extensions dealt with under the Double Account System?
9. Enumerate the accounts that must be compulsorily prepared by Gas Companies.

EXERCISE XXIV

1. To what class of enterprise does the system of book-keeping known as the Double Account System apply? Briefly explain its distinctive features as compared with the Single Account System. (*Royal Society of Arts, Accounting and Banking.*)

2. Differentiate between the terms Double Account System and Double Entry System. In what classes of undertaking is the former system used? (*London Chamber of Commerce.*)

3. What is the usual custom with undertakings, whose accounts are compulsorily kept on the Double Account System, as to providing for the wastage of their assets? If such provision be made, how does it generally appear in the published accounts? (*Royal Society of Arts, Accounting and Banking.*)

4. There is a distinct difference when dealing with depreciation in Double Accounts, as compared with the Single Account System. How is depreciation dealt with in the Double Account System? (*National Union of Teachers.*)

Dr. **CAPITAL ACCOUNT** *Cr.*

No. III. **For the Year ending 31st December, 19...**

	Expenditure up to 31 Dec., 19...	Expended during the Year	Total Expenditure to 31 Dec., 19...		Receipts up to 31 Dec., 19...	Received during Year	Total Receipts to 31 Dec., 19...
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
To expenditure to 31st December, 19...				By Ordinary Shares of £			
Expenditure since that date.				" " " of £			
1. To Lands, including Law Charges incidental to acquisition ..				" Preference " of £			
2. " Buildings				" Debenture Stock			
3. " Machinery				" Mortgages and Bonds			
4. " Accumulators at generating and distributing stations.. ..				" Amounts received in anticipation of Calls			
5. " Mains, including cost of laying the mains				" Sale of Patents or Patent Rights, etc.			
6. " Transformers, Motors, etc. ..				" Other Receipts (to be specified)			
7. " Meters and Fees for certifying under the Act							
8. " Electrical Instruments, etc. ..							
9. " General Stores (Cable, Mains, Lamps)							
10. " Purchase of Patents or Patent Rights							
11. " Cost of Licence, Provisional Order, etc.							
12. " Special Items							
Total expenditure							
To balance of Capital Account	..	.. ..					
		£				£	

Provision for depreciation of works is made by a debit of £ to Revenue Account transferred to Depreciation Fund Account, No. VII.

Dr. REVENUE ACCOUNT **Cr.**

No. IV. For the Year ending 31st December, 19...

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
A.—*To generation of Electricity.*			1. By Sale of Current per meter at per B.T.U...		
1. To Coals or other Fuel, including dues, carriage, unloading, storing, and all expenses of placing the same on the works			2. „ Sale under Contracts		
2. „ Oil, Waste, Water, and Engine Room Stores..			3. „ Public Lighting		
3. „ Proportion of Salaries of engineers, superintendents, and officers, as certified by the Managing Director, Chairman, or Engineer			4. „ Rental of Meters and other apparatus on consumers' premises		
4. „ Wages and Gratuities at generating stations..			5. „ Sale and Repairs of Lamps, arc or incandescent		
5. „ Repairs and Maintenance, as follows— £ s. d.			„ Sale and Repairs of other Apparatus ..		
1. Buildings					
2. Engines, boilers					
3. Dynamos, exciters, transformers, motors, etc.			6. „ Royalties, Licences, etc.		
4. Other machinery, instruments, and tools			7. „ Rents Receivable		
5. Accumulators and accessories .			8. „ Transfer Fees..		
Less received for old material .			9. „ Other Items (to be specified)		
6. To Special Items					
Carried forward .. £			Carried forward .. £		

Dr. | *Cr.*

No. IV.—*cont.* REVENUE ACCOUNT—*cont.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Brought over			Brought over		
B.—*To distribution of Electricity.*					
1. To Proportion of Salaries of superintendents and officers, as certified by Managing Director, Chairman, or Engineer					
2. " Wages and Gratuities to linesmen, fitters, labourers					
3. " Repairs, Maintenance, and Renewals of Mains of all classes, including materials and laying the same .. .. .. (£ s. d.)					
Less amounts refunded					
4. " Repairs, Maintenance, and Renewals of transformers, meters, switches, fuses, and other apparatus on consumers' premises.. ..					
5. " Repairs, Maintenance, and Renewals of apparatus at distributing stations					
C.—*To Public Lamps.*					
1. " Attending and Repairs..					
2. " Renewals of Lamps					
Carried forward .. £			Carried forward .. £		

Dr. *Cr.*

No. IV.—*cont.* REVENUE ACCOUNT.—*cont.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Brought over			Brought over		
D.—*To Royalties, etc.*					
To Royalties, etc., payable for use of patents or patent processes.					
E.—*To Rents, Rates, and Taxes.*					
1. „ Rents Payable					
2. „ Rates and Taxes					
F.—*To Management Expenses.*					
1. „ Directors' Remuneration					
2. „ Salaries of Managing Engineers, Secretary, Accountants, Clerks, Messengers, as certified by Managing Director, Chairman, or Engineer					
3. „ Salaries or Commissions of Collectors ..					
4. „ Stationery and Printing					
5. „ General Establishment Charges					
6. „ Auditors of Company					
7. „ Auditor appointed under the provisions of the Order					
Carried forward .. £			Carried forward .. £		

Dr.

No. IV.—*cont.*

REVENUE ACCOUNT—*cont.*

Cr.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Brought over			Brought over		
G.—*To Law and Parliamentary Charges.*					
1. To Law Expenses					
H.—*To Depreciation.*					
1. ,, Depreciation in respect of Leasehold Works .					
2 ,, ,, ,, Buildings					
3. ,, ,, ,, Plant, Machinery, etc.					
I.—*To Special Charges.*					
1. ,, Insurances, Superannuation, etc.					
2. ,, Expenses for certification of Meters					
Total expenditure					
Balance carried to Net Revenue					
	£			£	

NET REVENUE ACCOUNT

Dr. No. V. | *Cr.*

	£ s. d.		£ s. d.	£ s. d.	£ s. d.
1. To Interest on Debentures accrued due to date ..		1. By Balance from last account			
2. „ Interest on Mortgages and Bonds accrued due to date		*Less* Dividend paid			
3. „ Interest on temporary Loans accrued due to date		„ Amount carried to Reserve Fund ..			
4. „ Dividend on Preference Stocks		2. „ Balance brought from Revenue Account (No. IV) ..			
5. „ Balance applicable to Dividend on Ordinary Stock or Shares		3. „ Interest on Money at deposit			
£					£

RESERVE FUND ACCOUNT

Dr. No. VI. | *Cr.*

	£ s. d.		£ s. d.
1. To Amount paid out for		1. By Balance brought from last account	
2. „ „ of balance to next account		2. „ Amount brought from Net Revenue Account ..	
		3. „ Interest on amount invested	
		(*Description of Investments to be specified.*)	
£			£

DEPRECIATION FUND ACCOUNT

Dr. No. VII. | *Cr.*

	£ s. d.		£ s. d.
1. To Balance		1. By Balance from last account	
		2. „ Interest on Investments	
		3. „ Amount brought from Revenue Account (*see* No. IV. H.)	
		(*Description of Investments to be specified.*)	
£			£

Dr. *Cr.*

No. VIII.

GENERAL BALANCE SHEET

Liabilities.	£ s. d.	*Assets.*	£ s. d.	£ s. d.
1. To Capital Account: Amount received as per Account No. III		1. By Capital Account: Amount expended for works as per Account No. III		
2. " Sundry Tradesmen and others, due on construction of plant and machinery, fuel, stores, etc., to 31st Dec., 19 .		2. " Stores on hand at 31st December, 19..—		
3. " Sundry Creditors on open accounts		Coal		
4. " Net Revenue Account: Balance at credit thereof ..		Oils, Waste, etc.		
5. " Reserve Fund Account " " ..		General		
6. " Depreciation Fund Account " " ..		3. " Sundry Debtors for amounts paid on account of contracts in course of completion..		
		4. " Preliminary Expenses		
		5. " Sundry Debtors for current supplied to 31st Dec., 19..		
		6. " Other Debtors		
		7. " Cash at Bankers—		
		Messrs.		
		Messrs.		
		Messrs. (amount on deposit)		
		8. " Cash in hand		
£		£		

....................*Chairman.*

............*March*, 19...

....................*Manager and Secretary.*

5. Describe briefly the difference in the method of recording and presenting the Capital Account of an ordinary Commercial Limited Company, whose accounts are kept upon the Single Account System as compared with a Company working under a special Act of Parliament whose accounts are necessarily kept upon the Double Account System. Give a *pro forma* Capital Account of an enterprise working under the latter system. (*Royal Society of Arts, Accounting and Banking.*)

6. (*a*) What undertakings, in general, keep their accounts upon the Double Account System ? (*b*) What is the principal, if not the sole, reason for employing this form of accounts ? (*National Union of Teachers.*)

7. Give a *pro forma* example of a Capital Receipts and Expenditure Account under the Double Account System. State briefly how depreciation can be provided for under this system of accounting. (*Royal Society of Arts, Accounting and Banking.*)

8. Are the published accounts of Gas Companies subject to any statutory regulations ? Give the rulings you would recommend for any two of the principal books employed by Gas Companies, and briefly describe the uses of the books you illustrate. (*London Chamber of Commerce.*)

9. How are Depreciation and Renewals of Fixed Assets treated in the Accounts of an Electric Light undertaking ? (*Chartered Accountants.*)

10. The figures given below relate to the Cornwall Colliery Co. for the year ending 31st December.

You are requested to construct from them a Capital Account and General Balance Sheet on the Double Account System, and then exhibit the same figures in a Balance Sheet on the Single Account System.

Nominal Capital	£250,000	Office Buildings	£3,000
110,000 Ordinary Shares of £1 each, fully paid	110,000	Workmen's Cottages	9,000
60,000 6% Preference Shares of £1 each, fully paid	60,000	Depreciation Fund	20,000
Debentures 5%	30,000	Reserve Fund	15,000
Bills Payable	6,000	Balance to Credit of Profit and Loss Account	25,000
Sundry Creditors	9,000	Stock on hand	12,000
Lands acquired	8,500	Investments	17,000
Shaft Sinking, etc.	111,000	Sundry Debtors	35,000
Plant and Machinery	35,000	Cash in hand and at Bank	30,000
Wagons	13,500	Short Workings Account	1,000

The above figures include an issue of 10,000 Preference Shares during the year ; and the following amounts were also spent during the same period —
Shaft Sinking, £6,000 ; Machinery, £5,000 ; Wagons, £3,000 ; Workmen's Cottages, £1,000. (*National Union of Teachers.*)

11. Provide for the undermentioned depreciations, and prepare a Revenue Account, Capital Account, and Balance Sheet from the following Trial Balance. A call of £1 per share was payable on the 31st December, and arrears are subject to interest at 5% per annum.

Depreciation to be provided for on : Buildings, 2½% ; Machinery, 7½% ; Mains, 5% ; Transformers, etc., 10% ; Meters and Electrical Instruments, 15%.

DYNAMO ELECTRIC LIGHTING CO., LTD.
TRIAL BALANCE, 30th June

Amount last June 30			
£	Capital—	£	£
	Nominal 10,000 Shares of £10 each		
20,000	Subscribed 5,000 Shares of £10 each £5 paid		25,000
15,000	Debentures, 6% Interest		15,000
1,000	Depreciation Fund		1,000
	Calls in Arrear	1,000	
9,300	Freehold Land	9,300	
4,000	Buildings	5,000	
6,000	Machinery at Station	10,000	
5,000	Mains	8,000	
1,000	Transformers, Motors, etc.	2,000	
500	Meters	1,500	
300	Electrical Instruments	400	
1,600	General Stores (Cables, Mains, and Lamps) in stock	2,350	
250	Office Furniture	250	
	Coal and Fuel	1,900	
	Oil, Waste, and Engine Room Stores	750	
	Coal, Oil, Waste, etc., in stock	100	
	Wages at Station	3,000	
	Repairs and Replacements	500	
	Rates and Taxes	300	
	Salaries of Secretary, Manager, etc.	1,500	
	Directors' Fees	1,000	
	Stationery, Printing, and Advertising	600	
	Incidental Expenses	100	
	Law Charges	200	
	Sales by Meter		8,750
	,, by Contract		5,000
	Meter Rents		300
	Sundry Creditors		1,000
	,, Debtors	3,000	
	Cash in hand and at Bank	3,300	
		£56,050	£56,050

(*Chartered Accountants.*)

12. The following is the Trial Balance of the Durham Railway Co. after the completion of the Revenue Account for the half-year ended 31st December —

$3\frac{1}{2}$% Preference Stock	£300,000	General Stores, Stocks on hand	£10,000
Ordinary Stock	500,000	Traffic Accounts due to Company	10,000
4% Debenture Stock	200,000	Due from other Companies	1,000
Lines open for Traffic	851,950	Sundry outstanding A/cs *Dr.*	4,000
,, in course of Construction	5,000	Debts due to other Companies	500
,, not commenced	50	Sundry Tradesmen, etc. *Cr.*	20,000
Working Stock (Engines, Carriages, etc.)	130,000	Fire Insurance Fund	1,500
Contributions to Joint Lines	50,000	Superannuation Fund	5,000
Premiums on Stock	25,000	Balance to credit of Net Revenue Account	20,000
Purchase of Grand Canal	5,000		
Cash at Bank	5,000		

Prepare Balance Sheet. (*Chartered Accountants.*)

13. THE TRENT VALLEY WATER CO.

Trial Balance on 31st December

60,000 Ordinary Shares of £1 each, fully paid	£60,000	Printing	£50
20,000 Preference Shares of £1 each, fully paid, 6%	20,000	Incidental Expenses	37
Debenture Stock, 5%	20,000	Maintenance of—	
Premiums on Shares	20,000	Pumping Stations	1,705
Expended on—		Reservoirs	500
Purchase of Land	3,000	Filter Beds	150
Construction of Works	102,330	Repairs to Mains	220
Mains and Service Pipes	11,920	General Repairs	155
Meters	1,050	Directors' Fees	400
Parliamentary Expenses	2,000	Auditors' Fees	50
Sundry Debtors	48	Rates and Taxes	2,500
„ Creditors	841	Interest on Debenture Stock to date	1,000
Reserve Fund	258	Dividends on Preference Shares to date	1,200
Sundry Debtors for Water Rates due	1,242	Interim Dividend on Ordinary Shares, 1st Aug.	3,000
Stores on hand	340	Water Rents . . *Cr.*	14,667
Investments—		General Rents . . *Cr.*	350
National War Loan Stock, at par	250	Transfer Fees	24
Cash in hand	60	Unclaimed Dividends	20
„ at Bank	3,353	Balance of net Revenue A/c, 1st Jan. . . *Cr.*	1,000
Salaries	600		

The Reserve Fund is to be raised to £500, and National War Loan Stock increased to a like amount at par, to be known in future as Reserve Fund Investments.

You are requested to make out: 1. Capital Account. 2. Revenue Account. 3. Net Revenue Account. 4. Reserve Fund Account; and 5. General Balance Sheet. (*National Union of Teachers.*)

14. Open and completely post up Ledger Accounts recording the following transactions—

(*a*) The charging of sundry consumers with £320 10s. for Gas consumed.
(*b*) The receipt of same in cash from sundry persons, *less* 5% discount.
(*c*) The sale of 20 tons 5 cwt. of Coke at 6s. 8d. per ton to John Smith on credit.
(*d*) The receipt of £5 on account of above from John Smith.
(*e*) The purchase of Gas Fittings worth £125 from A B Co. on "sale or return."
(*f*) The return of £20 worth of Fittings to the A B Co. (*National Union of Teachers.*)

15. How would you deal with the following transactions in the books relating to a Municipal Water Works? Your answers may take the form of Journal entries.

(1) The borrowing of £10,000 from the Atlas Assurance Co. at 4% interest, repayable by equal annual instalments of principal in 20 years, with interest half-yearly on the balance outstanding.
(2) The payment of the first year's instalment of principal.
(3) The payment of six months' interest (*less* income tax at 1s. in the £) on the balance outstanding after payment of the first year's instalment of principal. Income tax paid to Commissioners in the usual way.
(4) The payment to Messrs. Stone & Co., Contractors, of a sum of £500 (*less* 20% retention money) in respect of a contract for laying water mains.

(5) The purchase of Sundry Materials worth £78 9s. 6d. from S. Johnson & Co.

(6) Payment to S. Johnson & Co. of the above amount.

(7) The using of £15 worth of the above materials for repairs of mains.
(*National Union of Teachers.*)

16. The following are the balances of the Great Southern Railway for the half-year ending 31st December. You are requested to make out, in the prescribed form—

1. Capital Account. 2. Revenue Account. 3. Net Revenue Account. 4. General Balance Sheet.

Ordinary Stock	£5,192,500
4% Preference Stock	2,702,711
Debenture Stock	1,526,258
Premiums received	55,653
Expended—	
upon lines open for traffic to 30th June	9,181,704
upon the above during current half-year	44,304
upon Working Stock to 30th June	616,961
upon Working Stock during current half-year	654
Expended upon—	
Maintenance of Way, Stations, etc.	38,373
Locomotive Power	93,008
Carriage and Wagon Repairs	14,858
Traffic Expenses	61,098
General Charges	13,342
Shipping Expenses	18,199
Dock and Harbour Expenses and Repairs	9,371
Law Charges	2,697
Parliamentary Expenses	3,834
Compensation	354
Mileage and Demurrage	447
Rates and Taxes	31,060
Government Duty	395
Receipts from—	
Passengers	106,401
Parcels, Carriages, and Horses	9,578

Mails	£2,641
Merchandise	43,508
Minerals	280,448
Shipping	19,355
Docks and Harbours	39,501
Rents	3,977
Interest on Debenture Stock	22,894
Rents payable on Leased Lines, Guarantees, etc.	31,876
Balance to Credit of Net Revenue A/c, 30th June	62,666
General Interest A/c—Credit Balance	290
Cash in hand and at Bank	45,528
General Stores—Stock on hand	39,363
Traffic A/cs due to the Co.	73,658
Amounts due from other Companies	12,356
Amounts due from Post Office	1,446
Sundry Debtors	25,103
Unpaid Dividends and Interest	2,612
Debts due to other Companies	59,730
Amount due to the Clearing House	12,417
Sundry Creditors and Suspense A/cs	198,806
Fire Insurance Fund	23,945
Reserve Fund	22,419
Employees' Savings Bank Deposits	17,467

(*National Union of Teachers.*)

17. From the following figures prepare the Balance Sheet of the X Y Z Co., Ltd., at 31st December, on the Double Account System—

	£	s.	d.
Freehold Land—1st Jan., 19..	5,000	–	–
„ Additions	500	–	–
Share Capital	15,000	–	–
Machinery—1st Jan., 19..	6,000	–	–
„ Additions	1,000	–	–
Sundry Creditors	1,100	–	–
Stock—31st Dec., 19..	6,000	–	–
Sundry Debtors	2,200	–	–

	£	s.	d.
Buildings—1st Jan., 19..	2,000	–	–
„ Additions	300	–	–
Office Furniture—1st Jan., 19..	500	–	–
Debentures—1st Jan., 19..	5,000	–	–
„ Issued during year	3,000	–	–
Due to Debenture Holders for Interest	300	–	–
Depreciation Fund Account	5,000	–	–
Investments against Depreciation Fund A/c	4,000	–	–
Revenue Account (*Cr.* Balance)	4,700	–	–
Cash at bank and in hand	6,600	–	–

(*I.B.L.*)

18. Enumerate the sub-headings under which the items in the Revenue Account of a Gas Company are detailed.

19. Draw up a "Capital Account" suitable for a Water Company; also state the stipulations relating to dividends contained in the Waterworks Clauses Act, 1847.

20. Discuss the question of "Depreciation" arising in connection with Electric Light companies, and particularly as regards the circumstances making the provision a necessity.

REVISION EXERCISE XXIV

1. How would you deal with the undermentioned items when preparing the annual Accounts of a Company?—

(*a*) Premiums received on an issue of Debentures.

(*b*) A Policy on the life of A B for £5,000 (payable at death without profits), taken over against a Bad Debt of £6,000. A B is 70 next birthday, and the annual premium on the policy amounts to £130.

(*c*) A new cigarette-making machine invoiced at £750, from which an allowance of £300 was subsequently made in consideration of the machine being exhibited in daily use at the Company's Stand at the Franco-British Exhibition. (*Royal Society of Arts, Accounting and Banking.*)

2. What books, in addition to the ordinary Books of Account, do you consider a manufacturer should keep in order to enable him to prepare a complete system of Cost Accounts? What information do you consider that such a system would provide? (*London Chamber of Commerce.*)

3. Criticize the following Trading and Profit and Loss Account and Balance Sheet; and draw them as you would present them to the shareholders of the Company at the Annual Meeting, giving *pro forma* figures for any items you think should be inserted—

The Patent Mixtures Co., Ltd.
Trading and Profit and Loss Account
for the year ended 31*st August*

Dr.				*Cr.*
To Stock on hand	£5,321		By Goods sold	£5,571
Less Plant	2,108		„ Additions to Plant	180
		£3,213	„ Stock in hand	4,153
„ Goods bought		5,130	„ Balance to Balance Sheet	514
„ Wages		915		
„ Carriage		55		
„ Branch Wages & Expenses		312		
„ Bad Debts		210		
„ Rent, Rates, and Insurance		319		
„ Trade Charges		264		
		£10,418		£10,418

Balance Sheet

Liabilities		*Assets*	
Share Capital	£5,433	Sundry Debtors	£2,890
X Y Z	1,509	Plant and Machinery	2,265
Bankers	769	Stock in hand	4,153
Sundry Creditors	2,114	Cash in hand	3
		Balance	514
	£9,825		£9,825

(*Royal Society of Arts, Accounting and Banking.*)

4. Thomas Robinson applied, on 1st March, for 100 Shares of £10 each in Slater, Ltd., and paid application, allotment, and first call each of £1 per share. Then he failed, and the Company, being able to recover only £55 of the whole balance (£700) due from him, forfeited his shares. Make the entries necessary to record correctly the forfeiture aforesaid. (*Chartered Accountants.*)

5. How should the undermentioned items be treated in the Accounts of a Limited Company?—

(1) An issue of 1,000 Debentures of £100 each, issued 1st January, at 90, repayable in 10 years.

(2) An expenditure of £5,000 on advertising a new patent medicine. The sales for the first year amounted to £1,500, but were on the up-grade.

(3) A debt owing by a director of the Company.

(*London Chamber of Commerce.*)

6. The Sherbourne Iron Furnace Co., Ltd., has a registered Capital of £150,000, divided into 150,000 shares of £1 each; £120,000 shares, upon which 10s. per share has been called up, have been issued and subscribed. Owing to default by non-payment of Calls, 100 shares, upon which £5 have been received, have been forfeited in accordance with the Articles of Association.

On 30th September the Stock in hand was taken, the value of which certified by the Managing Director, was as follows—

Pig Iron	£16,045	Coal and Coke	£900
Limestone	78	Iron Ore, etc.	1,128

The Ledger Balances on 30th September, set out below, were extracted from the Company's books, after all the necessary trade reserves and depreciations had been adjusted.

Prepare a "Furnaces" or (Working) Account, showing the cost of the Pig Iron produced, a Trading Account and Profit and Loss Account for the year ended 30th September, and a Balance Sheet as on that date, after carrying £2,000 to the Dividend Reserve Account—

Ledger Balances. 30*th Sept.*

	£		£
Freehold Premises A/c	23,400	Wages (Furnaces) A/c	8,724
Furnaces, Fixed Plant, and Utensils A/c	24,920	Bills Payable A/c	120
Locomotives and Rolling Stock A/c	7,411	Limestone Stock A/c, 1st Oct.	122
Reserve A/c	2,000	Coal and Coke Stock A/c, 1st Oct.	1,400
Share Capital A/c	59,950	Iron Ore, etc., Stock A/c, 1st Oct.	1,006

LEDGER BALANCES. 30*th Sept.*—(*contd.*)

	£		£
Pig Iron Stock A/c, 1st Oct..	26,272	Travelling Expenses A/c .	237
Coal and Coke Purchases A/c	27,227	Insurance (Fire and Employers' Liability) A/c . .	385
Limestone Purchases A/c .	3,320	Law Charges A/c . .	233
Iron Ore, etc., Purchases A/c	14,467	Forfeited Shares A/c . .	5
Sundry Debtors . . .	7,257	Sundry Creditors . .	5,604
Profit and Loss A/c (credit balance)	7,822	Bad Debts A/c (debit balance)	9
Sales A/c	86,873	Dividend A/c (Paid 31st Mar., on account of the year ended 30th Sept. last) .	5,995
Rates and Taxes A/c . .	1,297	Bank Overdraft . . .	1,981
Repairs and Renewals of Furnaces, etc., A/c . .	2,500	Cash in hand . . .	224
Repairs and Renewals of Rolling Stock, etc., A/c .	1,221	Carriage A/c (inwards) .	2,000
Office Salaries and Sundry Wages A/c . . .	1,728	,, ,, (outwards) .	3,000

(*Royal Society of Arts.*)

7. The A. R. Waddell Co., Ltd., which was formed to purchase a manufacturing business, was registered on 1st January, with a nominal Capital of £100,000, divided into 10,000 Ordinary Shares of £10 each. With the undermentioned exception, these shares were offered to the public, and 7,500 were subscribed for and duly allotted. As part purchase price of the business, 500 shares were allotted as fully paid to the vendor. The shares issued to the public were payable as follows—

£2 10s. per share on application, £2 10s. on allotment, £2 10s. on 31st March, and the balance as and when required. The final balance had not been called up on 31st December.

In addition to the balance of the Capital account, the following balances appeared in the books of the Company on 31st December—

	£		£
Salaries	3,060	Reserve for Bad Debts .	250
Manufacturing Wages .	22,421	Goodwill	10,000
General Expenses . .	941	Purchases—Returns . .	4,001
Stock (1st Jan.) . .	10,210	Sales—Returns . .	4,759
Rents received . . .	300	Bills Payable . . .	962
Reserve for Depreciation of Buildings	3,000	Alterations & Improvements	2,505
Carriage	6,119	Advertising . . .	2,793
Sundry Debtors . .	16,342	Directors' Fees . .	750
,, Creditors . .	6,124	Legal Expenses . .	61
Rates, Taxes, and Insurance	2,450	Preliminary Expenses .	447
5 per cent Debentures .	5,000	Plant, Machinery, and Fixtures	9,510
Debenture Interest (from date of issue to 30th June)	107	Lighting and Heating .	766
Purchases	102,551	Discount A/c (debit balance)	1,174
Sales	142,412	Travellers' Expenses and Commission . . .	647
Calls in arrear . . .	250	Bank Overdraft . .	1,789
Repairs and Renewals .	1,027	Cash in hand . . .	198
Freehold Land & Buildings	26,000		

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date.

State briefly what conclusions the accounts of the Company would lead you to arrive at.

Before preparing the accounts, it is necessary to take the following matters into consideration—

(*a*) 10 per cent Depreciation is to be written off Plant and Machinery.

(*b*) The Reserve for Bad Debts is to be made up to £500.

(*c*) £50, representing Insurance paid in advance, is to be carried forward.

(*d*) The amount spent upon alterations and improvements is to be written off by equal instalments over a period of 5 years.

(*e*) The whole of the Preliminary Expenses (part having been borne by the vendor are to be written off.

(*f*) The Stock-in-hand, as on 31st December, was valued at £12,347.
(*London Chamber of Commerce.*)

CHAPTER XXV

BANK BOOK-KEEPING AND ACCOUNTS

Services of the Modern Banking System. The services rendered by the modern banker to commerce, industry, and the community in general may be briefly summarized as follows—

(1) Keeping current accounts for traders and private individuals, collecting cheques, bills of exchange, and cash articles (postal orders, money orders, bank notes, etc.), and affording facilities, by means of cheques and drafts, for remitting money from one part of the country to another.

(2) Discounting bills of exchange and promissory notes.

(3) Granting loans and overdrafts on approved securities.

(4) Receiving money on deposit.

(5) Affording facilities for obtaining money abroad, by means of circular notes and letters of credit.

(6) Acting as agent for country and foreign banks.

(7) Buying and selling stocks and shares for customers, collecting dividends, also keeping in safe custody for them, jewels, securities, and other valuables.

How a Banker makes his Profits. A banker's profits are derived from interest on loans granted, discount (or interest) on bills and notes discounted, commission charged for conducting current accounts, for accepting and endorsing bills payable abroad, and for other services rendered to his customers. Inasmuch as he is liable to repay on demand the balances of his customers' current accounts, he retains of the money received, either in his possession or on current account at the Bank of England, a sum sufficient to meet his normal requirements. The remainder he lends out at remunerative rates of interest, or invests in Government, municipal, or other gilt-edged securities.

Special Features of Bank Book-keeping. As can be seen from the previous two paragraphs, a banker requires books to record money received, money paid, money lent, interest, discount, and commission earned, interest paid, expenses of management, etc. The system adopted, therefore, consists chiefly of an elaborate analysis of cash received and paid. Other special features are the slip system of ledger posting, and the daily balance.

NOTES ON THE BOOKS

Receiving Cashier's Counter Cash Book. The Receiving Cashier (or teller) is the cashier who receives over the counter the customers' lodgments, i.e. cheques, notes, coin, etc., which the customer

wishes to be placed to the credit of his account. He initials the customer's paying-in book. All these receipts he records in his own Cash Book as and when he receives them. The following is a specimen—

RECEIVING CASHIER'S COUNTER CASH BOOK

Customer	Total			Cheques, Etc.			Notes			Coin		
Smith & Son . . .	85	3	2	62	10	6	20	-	-	2	12	8

Paying Cashier's Counter Cash Book. The Paying Cashier is the cashier who pays over the counter those cheques drawn by the bank's customers that are not crossed or not payable through the Clearing House. He enters such cheques in his Cash Book, and records the numbers of any notes issued. The following is a specimen—

PAYING CASHIER'S COUNTER CASH BOOK

Customer	Total			Coin			Notes				House Cheques			Walks Cheques		
							Amount			Numbers						
Bartlett, F. M.	30	11	6	10	11	6	20	-	-	4 £5 47081–4						
Stevens & Sons											4	10	-			

Received Waste Book. This is a book ruled with columns in order that the cheques, etc., received by a bank for the credit of its customers' accounts may be analysed into appropriate groups so as to facilitate collection. Thus, all Town Clearing cheques are grouped together, all Metropolitan Clearing, all Walks cheques, all Bank of England cheques, and so on. Some banks enter only the cheques received, others enter coin and notes as well in order that the total may be checked with the Received Cash Book total. A specimen is shown on page 955. "Walks Cheques" refers to those cheques which are drawn on bankers not represented at the Clearing House. The collecting bank's representative has to walk to the paying bankers to present the cheque and collect the money.

Bank of England or Goldsmith's Book. This is a book in which are entered all Bank of England notes received or issued to the public and paid into the bank's credit at the Bank of England. It is a memorandum register containing details of the bank's daily deposits of Bank of England notes, post bills, and cheques with the Bank, and of its withdrawals from the Bank. A specimen ruling is shown on page 955. Goldsmith's deposit notes were the earliest form of bank note, hence the use of the term.

RECEIVED WASTE BOOK

Customer	Total	Town Clearing	Metropolitan Clearing	Country Clearing	Walks	Bank of England	House (own) Cheques	Notes	Coin
Smith & Son	85 3 2	24 10 –	10 12 6	6 10 –	5 12 6	10 15 6	4 10 –	20 – –	2 12 8

BANK OF ENGLAND (OR GOLDSMITH'S) BOOK

Date	Particulars	Paid in: Gold	Paid in: Notes	Paid in: Cheques	Paid in: Post Bills	Paid in: Fol.	Paid in: Total	Drawn out: Particulars	Drawn out: Fol.	Drawn out: Total
Jan. 15	Received Waste Book		20 – –	10 15 6			30 15 6	Notes		120 – –
	Clearing			826 10 4	50 – –		876 10 4	Gold		800 – –
								Silver		50 – –

Bills Received for Collection Register. Customers who receive bills of exchange usually pay them into their bank for collection two or three days before the due date. This gives their banker time to present such bills on the exact due date. These bills are numbered consecutively by the bank, and full particulars are entered in a special book entitled "Bills Received for Collection Register." A specimen of such book is given on page 957. Some banks credit these bills to the customers' accounts in a separate Bills Ledger, and debit them to a General Ledger Account, entitled "Bills Received for Collection." When the bills are paid, dockets are prepared reversing the former entries, the Bills Ledger Account being debited and the Bills for Collection Account credited; Cash also is debited, and the amounts credited to the customers' accounts in the Current Accounts Ledger. In other banks these bills are excluded from the system of accounts. Only the Register is kept, and when the bills are paid, Cash is debited and the Current Accounts credited. All bills are arranged in order of due date and entered in a special Bill Diary.

Bills Received for Discount Register. This is a book which gives full particulars of all bills discounted by a bank for its customers. A specimen is shown on page 957.

Bills Received for Discount Ledger. This is a book which records particulars of bills discounted for each individual customer, an account being opened in the customer's name. It is important for a bank to know how much it is advancing on each individual customer's endorsement. Particulars of these discounted bills are also entered in an Acceptor's Ledger, an account being opened in the name of each acceptor. By this means the bank can prevent itself holding too many of any one person's acceptances. When the bill is discounted, the full face value is debited to a Bills Receivable Discounted Account and credited to the customer's Current Account. The discount charged is debited to the customer's Current Account and credited to a Discount Account in the General Ledger. When the discounted bill is paid at maturity, Cash is debited and Bills Receivable Discounted Account credited. The following is a specimen of the Discount Ledger.

BILLS RECEIVED FOR DISCOUNT LEDGER

Date Received	No. of Bill	Acceptor	Drawer	Due Date	Amount *Dr.*			Amount *Cr.*			Balance		
Jan. 12	842	T. Pink	R. Cook	Feb. 28	268	9	2				268	9	2
Feb. 28	"	Paid						268	9	2			

BILLS RECEIVED FOR COLLECTION REGISTER

No.	Date Received	From whom Received	Drawer	Acceptor	Date of Bill	Due Date	Where Payable	Amount of Bill			Date Paid
825	19— Jan. 16	Limpet & Co.	A. Johnson	F. Green	Nov. 15	Jan. 18	London and County	287	14	8	19— Jan. 18
826	Jan. 17	Scott, R. J.	Roberts & Co.	T. Lake	Dec. 16	Jan. 19	Bank of England	106	11	7	

BILLS RECEIVED FOR DISCOUNT REGISTER

No. of Bill	Seller	Acceptor	Drawer	Where Payable	Amount of Bill			Due Date	Date Discounted	Days to Run	Rate of Discount	Amount of Discount			Remarks
834	Albert & Co.	Scott & Brown	A. Tomlin	London Joint Stock	420	–	–	19— Feb. 14	19— Jan. 4	41	5%	2	7	2	Paid
835	Thompson A.	Green & Co.	C. Beaver	Union & Smiths	200	–	–	Mar. 2	Jan. 5	56	5%	1	10	8	Paid

PAYING-IN SLIP

The following is a specimen of a paying-in slip from which the Received Waste Book is written up, as is also the credit side of the customer's Current Account.

THE SAFE BANK, LIMITED.
20*th Jan.*, 19..

CREDIT. *A. Roberts*

	£	s.	d.	£	s.	d.
£1 Notes . .	10	–	–			
10s. Notes . .		10	–			
Gold . . .						
Silver . . .	2	1	6			
Copper . . .		3	8			
				12	15	2
£5, £10, etc., Notes .				5	–	–
Postal Orders .						
Cheques—						
R. Brown . .				16	14	11
F. Roberts . .				48	10	2
T. Smith . .				19	4	6
A. Jones . .				37	11	5
				£139	16	2

Paid in by..................................

THE SAFE BANK, LIMITED.
20*th Jan.*, 19..

CREDIT. *Arthur Roberts*

	£	s.	d.	£	s.	d.
£1 NOTES . .	10	–	–			
10s. NOTES . .		10	–			
GOLD . . .						
SILVER . . .	2	1	6			
COPPER . . .		3	8			
				12	15	2
£5, £10, etc., NOTES				5	–	–
POSTAL ORDERS .						
CHEQUES—						
				16	14	11
				48	10	2
				19	4	6
				37	11	5
				£139	16	2

Paid in by..................................

CURRENT ACCOUNTS

Definition. A Current Account is the running account of the merchant or business man with his banker, into which he is daily paying cheques and on which he is daily drawing cheques.

Interest on Current Accounts. It is the practice of almost all the London banks to require a certain substantial balance of from £50 to £100 to be maintained, and not to allow interest on the account, nor to charge for keeping it. Where, however, a very large balance is constantly maintained, arrangements are sometimes made for allowing interest thereon. Provincial banks allow interest on current accounts, and likewise charge interest when the balance falls below a stipulated amount.

Charges for Keeping a Current Account. Where only a small balance is maintained, some banks make a charge varying from half-a-guinea to two guineas for conducting the account. Some bankers debit the fee to their customers as "charges," others term it " commission." Again, some banks, while allowing interest, make a charge for keeping the account. The charge varies from even less than $\frac{1}{8}$ per cent to $\frac{1}{4}$ per cent on the turnover, i.e. the total amount of the items debited to the account.

Form of Current Account Ledger. The form of the Current Account Ledger is quite different from that of the ordinary commercial Ledger. The Dr. and Cr. columns are placed side by side, and are followed by a third column in which is inserted the daily balance. This form of Ledger is retained even when no interest calculations have to be made.

Calculation of Interest. Interest is calculated on the daily credit balance for the number of days such balance remains unchanged. The balance (taken to the nearest pound) is multiplied by the number of days and the result extended into the "products" column; such products are often spoken of as "decimals," though quite inaccurately. The rate of interest allowed is usually $1\frac{1}{2}$ per cent below Bank rate, and thus fluctuates with it. Where the bank rate has fluctuated during the half-yearly account, the products are divided into periods corresponding with each particular Bank rate, and a separate total of products is made for each period. At the close of the half-year, each total is charged with its proper rate of interest. In actual practice the amount of the interest is ascertained by reference to special Interest Tables; but in examination work it must be found by arithmetical calculations as explained in Chapter IV on Accounts Current.

Example. From the following particulars draw up the account of William White, 27 Rufus Gardens, Brinkley, as it would appear in the Bank's Current Account Ledger on 30th June, interest to be charged at 3 per cent on the daily balance—

19—		*Deposits*			19—		*Withdrawals*		
Jan. 1.	Balance . .	£206	12	4	Jan. 12.	Cheque . .	£41	4	8
Feb. 12.	Cash, etc. .	57	18	11	Feb. 9.	Cheque . .	24	13	5
Mar. 24.	Cash, etc. .	43	2	8	Mar. 18.	Cheque . .	36	12	10
Apr. 13.	Cash, etc. .	57	4	10	Apr. 23.	Cheque . .	17	14	2
May 15.	Cash, etc. .	29	13	6	May 16.	Cheque . .	85	3	6
June 25.	Cash, etc. .	120	15	3	June 21.	Cheque . .	54	8	9

(See next page.)

BANK PASS BOOK

Definition. The Bank Pass Book is a detailed account of the transactions that the trader has had with his bankers, a record of the amounts he has paid into, and withdrawn from, the bank, and by means of which he checks the "Bank" column of his own Cash Book.

Methods of Writing up the Pass Book. There are two ways in which the Pass Book is written up. With some banks it is the practice to write it up from the customer's point of view, e.g. —

THE SAFE BANK, LIMITED,
IN ACCOUNT WITH
William White

19—					19—				
Jan 1	To Balance . .	220	16	8	Jan. 5	By Self . . .	15	10	
8	" Cash . . .	52	4	10					

CURRENT ACCOUNT LEDGER

WILLIAM WHITE,
27 RUFUS GARDENS, BRINKLEY.

Date	Details	Folio	Amount Dr.	Amount Cr.	Nature of Balance	Balance	Interest: Days	Interest: Products	Interest: Rate	Interest: Amount
19—										
Jan. 1	By Balance . .			206 12 4	Cr.	206 12 4	12	2,484		
12	To Cheque . .		41 4 8		„	165 7 8	28	4,620		
Feb. 9	„ „ . .		24 13 5		„	140 14 3	3	423		
12	By Cash . .			57 18 11	„	198 13 2	34	6,766		
Mar. 18	To Cheque . .		36 12 10		„	162 – 4	6	972		
24	By Cash . .			43 2 8	„	205 3 –	20	4,100		
Apr. 13	„ „ . .			57 4 10	„	262 7 10	10	2,620		
23	To Cheque . .		17 14 2		„	244 13 8	22	5,390		
May 15	By Cash . .			29 13 6	„	274 7 2	1	274		
16	To Cheque . .		85 3 6		„	189 3 8	36	6,804		
June 21	„ „ . .		54 8 9		„	134 14 11	4	540		
25	By Cash . .			120 15 3	„	255 10 2	5	1,280		
30	„ Interest . .			2 19 8						
30	To Balance c/d .		258 9 10							
			518 7 2	518 7 2				36,273	3%	2 19 8
June 30	By Balance b/d .			258 9 10	Cr.	258 9 10				

In such cases, the bank debits itself with money received and credits itself with money paid. With other banks, it is the practice to write up the Pass Book from the banker's point of view, e.g. —

William White,
IN ACCOUNT WITH
THE SAFE BANK, LIMITED

19— Jan. 5	To Self . . .	15	10	–	19— Jan. 1 8	By Balance . . „ Cash . .	220 52	16 4	8 10

In such cases, the bank credits the customer with what he pays in, and debits him with what he draws out. In the former case, therefore, the Pass Book is a copy of the customer's Bank Cash Book; in the latter case it is a copy of the Bank's Ledger. Banks are now adopting the Loose-leaf principle for their Pass Books and using machines for their compilation.

DEPOSIT ACCOUNTS

Definition. A Deposit Account represents money which has been placed with a banker at interest, and which cannot be withdrawn without previous notice. The length of notice varies from 7 days to 12 months and the longer the notice of withdrawal required, the higher the rate of interest allowed on the deposit.

Deposit Receipt. A Deposit Receipt is the receipt given by a banker for money placed on deposit with him. It needs no stamp, and is not transferable. Most banks now issue Pass Books instead of Deposit Receipts.

Transfers from Current Account to Deposit Account. Customers sometimes wish money to be transferred from their Current to a Deposit Account, and in such cases slips are prepared as follows—

THE SAFE BANK, LIMITED.

15*th Jan,* 19—

DEBIT *Arthur Roberts*, Current Account, transfer to Deposit Account.

A. R. F.,

£250. Accountant.

THE SAFE BANK, LIMITED.

15*th Jan.,* 19—

CREDIT *Arthur Roberts,* Deposit Account, transfer from Current Account. Deposit Receipt No. 74168.

A. R. F.,

£250. Accountant.

or else a docket in this form—

THE SAFE BANK, LIMITED.	
	15th Jan., 19—
Arthur Roberts.	
DEBIT Current Account	£250
CREDIT Deposit Account	£250
	A. R. F.

BANKERS' CLEARING HOUSE

The Bankers' Clearing House is a place where bankers or their representatives meet to exchange cheques drawn on one another. Each bank draws up a list and ascertains the result of its " in " and " out " clearing with each of the other banks. These net differences are settled by means of drafts on the Clearing Bankers' Account at the Bank of England. There are three clearings, Town, Metropolitan, and Country.

Town Clearing applies to all those cheques which are presented for payment through the Clearing House in Lombard Court.

Banks usually keep two separate Registers ruled with columns for the different banks, in which all cheques are analysed. The totals of the " In " and " Out " Clearing Registers are entered into a Clearing Balance Book, separate totals being shown for each clearing bank. The differences between each set of totals are settled by transfers either from the Clearing Bankers' Account to the accounts of the banks to whom the money is due, or to the Clearing Bankers' Account from the banks owing such balances.

SLIP SYSTEM OF LEDGER POSTING

Slips are really loose leaves of Journals or Cash Books on which transactions are entered as they occur and passed to the ledger-keeper concerned for immediate posting to the debit or credit of accounts mentioned thereon.

A banker requires to know at any time the exact amount to the credit of his customers' accounts, and, therefore, the transactions must be posted up as soon as possible after they have taken place. This would not be possible if the transactions were all entered into bound books; because the ledger-keepers could use the book only one at a time, and much delay would ensue. The slip system enables numerous ledger-keepers to be posting the same day's transactions simultaneously.

The original cheques drawn by customers are used as vouchers for posting. The cashier credits Cash and passes them to the ledger-keeper to debit the customers. The original paying-in slips are made out by the customers and used as vouchers for posting. The cashier debits Cash, initials slips, and passes them to the ledger-keeper, who credits the customer's accounts.

The original application form made out by the customer for a fresh book of cheques is used as a voucher for posting; the clerk credits "Stamps on Cheques" Account and debits the customer. The bank makes out its own slips (also called "dockets") for transfer of money from customers' current accounts to customers' deposit accounts, and these are passed to the ledger-keepers for posting.

GENERAL LEDGER

CASH

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	85,187	10	4
2	To Day Book .	3,758,836	7	3							
2	By do. .				3,758,108	13	–	Dr.	85,915	4	7

BANK OF ENGLAND

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	726,662	10	6
2	To Day Book .	616,745	15	6							
2	By do. .				525,070	10	–	Dr.	818,337	16	–

BRANCHES

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Cr.	1,175,022	7	6
2	To Day Book .	1,316,925	13	10							
2	By do. . .				1,267,841	18	4	Cr.	1,125,938	12	–

CURRENT ACCOUNTS—TOWN

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Cr.	1,968,426	16	5
2	To Day Book .	1,156,804	13	2							
2	By do. .				1,308,658	14	7	Cr.	2,120,280	17	10

These slips and original documents are also passed to other clerks for analysis in the Waste Book, for writing up the Pass Books, and for constructing Total Accounts in the General Ledger, etc.

The original paying-in slip is recorded by the —

(1) Receiving Cashier in his Counter Cash Book;

(2) Waste Book Clerk for purposes of analysis in order to facilitate collection;

(3) Ledger-keeper for posting to customer's account;

(4) Pass Book clerk for writing up the Pass Book, which is afterwards compared with the customer's account in the Current Account Ledger.

The original cheque drawn by the customer is used as a slip and recorded by the —

(1) Paying cashier in his Counter Cash Book;

(2) Keeper of Paid Cash Book;

(3) Ledger-keeper;

(4) Pass Book clerk.

CASH DAY

Dr. WEDNESDAY,

To Town Current A/cs, paid in .	1,308,658	14	7			
" Country " " " " .	362,500	19	6			
				1,671,159	14	1
" Overdrawn Current A/cs—						
Town	60,785	12	8			
Country	52,187	13	8			
				112,973	6	4
" Loans paid off . . .				35,050	15	9
" Deposits paid in . .				5,860	15	–
" Bills Discounted . .				3,752	10	5
" Bills for Collection . .				1,475	10	6
" Interest on Loans . .				42	5	10
" Discount				84	7	2
" Commission . . .				25	–	–
" Letters of Credit . .				65	14	10
" Circular Notes . . .				50	–	–
" Suspense A/c *re* Lloyd & Co.				26	2	8
" Cheque Stamps . . .				20	10	6
" Branches paid in . . .				1,267,841	18	4
" Bank of England drawn out				525,070	10	–
" Bills Payable . . .				32,650	12	8
" Acceptances . . .				75,837	6	10
" Money at Call . . .				24,685	16	2
" Promissory Notes Discounted				2,163	10	2
				3,758,836	7	3
Balance from 1st March				85,187	10	4
				3,844,023	17	7

The use of original documents made out by customers saves labour, facilitates speed, and reduces the risk of fraud and error, any of which might occur as the result of much copying. It also ensures a system of check, because the same set of slips used by different sets of clerks must still give the same total.

GENERAL CASH BOOK AND LEDGER

The whole of the bank's transactions are summarized daily in a special Summary Book, the totals of all other books being entered. When the balance has been struck and agreed with the various Registers and the Cash held, which consists of money, notes and cheques not collected, the final summary is then written in the General Journal or Cash Book, and posted to the General Ledger. The General Ledger contains only total accounts. A total account may represent either a subsidiary Ledger or a group of such Ledgers. A specimen of Cash Book appears on pp. 964–5 and a specimen of General Ledger on pp. 963, 966-70.

BOOK.

2ND MARCH, 19— *Cr.*

By Town Current A/cs, drawn out	1,156,804	13	2			
„ Country „ „ „ „	347,628	10	2			
				1,504,433	3	4
„ Overdrawn Current A/cs—						
Town	68,725	10	5			
Country	68,916	15	4			
				137,642	5	9
„ Loans granted . . .				6,216	15	8
„ Deposits drawn out . .				4,060	10	6
„ Bills Discounted . . .				5,216	14	10
„ Bills for Collection . .				2,075	16	4
„ Interest paid on Current A/cs				26	15	7
„ Interest paid on Deposit A/cs				42	8	9
„ Letters of Credit . .				20	11	8
„ Circular Notes . . .				30	–	–
„ Suspense A/c *re* R. Phillips .				50	10	2
„ Cheque Stamps . . .				35	15	–
„ Charges				20	10	6
„ Branches, drawn out . .				1,316,925	13	10
„ Bank of England paid in .				616,745	15	6
„ Money at Call . . .				55,026	10	5
„ Bills Payable . . .				75,837	6	10
„ Acceptances				32,650	12	8
„ Promissory Notes Discounted				1,050	15	8
				3,758,108	13	–
Balance to 3rd March .				85,915	4	7
				3,844,023	17	7

CURRENT ACCOUNTS—COUNTRY

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Cr.	782,564	19	7
2	To Day Book .	347,628	10	2							
2	By do. .				362,500	19	6	Cr.	797,437	8	11

OVERDRAWN CURRENT ACCOUNTS—TOWN

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	65,050	15	6
2	To Day Book .	68,725	10	5							
2	By do. .				60,785	12	8	Dr.	72,990	13	3

OVERDRAWN CURRENT ACCOUNTS—COUNTRY

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	43,715	16	8
2	To Day Book .	68,916	15	4							
2	By do. .				52,187	13	8	Dr.	60,444	18	4

DEPOSIT ACCOUNTS

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Cr.	274,850	10	6
2	To Day Book .	4,060	10	6							
2	By do. .				5,860	15	–	Cr.	276,650	15	–

LOANS

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	1,356,306	15	6
2	To Day Book .	6,216	15	8							
2	By do. .				35,050	15	9	Dr.	1,327,472	15	5

MONEY AT CALL

Date.		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							*Dr.*	686,420	4	2
2	To Day Book .	55,026	10	5							
2	By do. .				24,685	16	2	*Dr.*	716,760	18	5

CIRCULAR NOTES

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							*Cr.*	210	–	–
2	To Day Book .	30	–	–							
2	By do. .				50	–	–	*Cr.*	230	–	–

LETTERS OF CREDIT

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							*Cr.*	275	15	6
2	To Day Book .	20	11	8							
2	By do. .				65	14	10	*Cr.*	320	18	8

BILLS FOR COLLECTION

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							*Dr.*	4,658	10	8
2	To Day Book .	2,075	16	4							
2	By do. .				1,475	10	6	*Dr.*	5,258	16	6

CHEQUE STAMPS

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							*Dr.*	650	12	6
2	To Day Book .	35	15	–							
2	By do. .				20	10	6	*Dr.*	665	17	–

BILLS DISCOUNTED

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	457,612	18	4
2	To Day Book	5,216	14	10							
	By do.				3,752	10	5	Dr.	459,077	2	9

PROMISSORY NOTES DISCOUNTED.

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	15,650	10	6
2	To Day Book	1,050	15	8							
2	By do.				2,163	10	2	Dr.	14,537	16	-

ACCEPTANCES.

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	168,725	12	8
2	To Day Book	32,650	12	8							
2	By do.				75,837	6	10	Dr.	125,538	18	6

BILLS PAYABLE

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Cr.	168,725	12	8
2	To Day Book	75,837	6	10							
2	By do.				32,650	12	8	Cr.	125,538	18	6

INTEREST ON DEPOSITS

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	250	15	6
2	To Day Book	42	8	9				Dr.	293	4	3

INTEREST ON LOANS

Date		*Dr.*			*Cr.*				Balance		
19—											
Mar. 1	. . . . . .							*Cr.*	6,257	8	4
2	By Day Book				42	5	10	*Cr.*	6,299	14	2

INTEREST ON CURRENT ACCOUNTS

Date		*Dr.*			*Cr.*				Balance		
19—											
Mar. 1	. . . . . .							*Dr.*	48	19	6
2	To Day Book	26	15	7				*Dr.*	75	15	1

DISCOUNT

Date		*Dr.*			*Cr.*				Balance		
19—											
Mar. 1	. . . . . .							*Cr.*	1,236	10	5
2	By Day Book				84	7	2	*Cr.*	1,320	17	7

RATES AND TAXES

Date		*Dr.*			*Cr.*				Balance		
19—											
Mar. 1	. . . . . .							*Dr.*	440	–	–

COMMISSION

Date		*Dr.*			*Cr.*				Balance		
19—											
Mar. 1	. . . . . .							*Cr.*	200	–	–
2	By Day Book				25	–	–	*Cr.*	225	–	–

CHARGES

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	620	14	3
2	To Day Book	20	10	6				Dr.	641	4	9

INVESTMENTS

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	1,218,086	10	6

RESERVE

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Cr.	575,000	–	–

SUSPENSE

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	370	18	6
2	To Day Book	50	10	2							
2	By do.				26	2	8	Dr.	395	6	–

PREMISES

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Dr.	124,000	–	–

PROFIT AND LOSS

Date		Dr.			Cr.				Balance		
19—											
Mar. 1	. . . . . .							Cr.	1,689	14	8

GENERAL LEDGER TRIAL BALANCE

2ND MARCH, 19—

	Dr. £	s.	d.	*Cr.* £	s.	d.
Cash	85,915	4	7			
Bank of England	818,337	16	–			
Branches				1,125,938	12	–
Current A/cs—Town				2,120,280	17	10
Do. —Country				797,437	8	11
Overdrawn Current A/cs—						
Town	72,990	13	3			
Country	60,444	18	4			
Deposit A/cs				276,650	15	–
Loans	1,327,472	15	5			
Money at Call	716,760	18	5			
Circular Notes				230	–	–
Letters of Credit				320	18	8
Bills for Collection	5,258	16	6			
Cheque Stamps	665	17	–			
Bills Discounted	459,077	2	9			
Promissory Notes Discounted	14,537	16	–			
Acceptances	125,538	18	6			
Bills Payable				125,538	18	6
Interest on Deposits	293	4	3			
Interest on Loans				6,299	14	2
Interest on Current A/cs	75	15	1			
Discount				1,320	17	7
Rates and Taxes	440	–	–			
Commission				225	–	–
General Charges	641	4	9			
Investments	1,218,086	10	6			
Reserve				575,000	–	–
Premises	124,000	–	–			
Suspense A/c	395	6	–			
Profit and Loss				1,689	14	8
	5,030,932	17	4	5,030,932	17	4

PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

The following is a specimen of a Bank Profit and Loss Account and Balance Sheet.

PROFIT AND LOSS ACCOUNT.

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Interest allowed to Customers	184,219	11	5	By Balance unappropriated brought forward on 30th June, 19—	127,614	10	6
„ Salaries and other Expenses at Head Office and Branches	286,905	13	7	„ Gross Profit after making provision for Bad Debts and Contingencies, and Income Tax, and including Rebate brought forward	802,862	18	4
„ Rebate on Bills carried to New A/c	32,617	14	4				
„ Bank Premises A/c	10,000	–	–				
„ Dividend for half-year to 31st Dec. at 20 % per annum £300,000 – –							
„ Balance carried forward 116,734 9 6	416,734	9	6				
	930,477	8	10		930,477	8	10

BALANCE SHEET AS AT 31ST DECEMBER, 19—

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Subscribed Capital— 200,000 Shares of £50 each, £15 per share paid up	3,000,000	–	–	Cash in hand and at Bank of England	6,406,814	10	6
Reserve Fund	2,027,050	10	6	Cash at Call and Short Notice	6,812,084	15	4
Current Accounts	26,862,785	11	8	Investments— Consols and other Government Securities	3,864,108	10	2
Deposit Accounts	11,552,861	12	6	Indian Govt. Stocks	606,840	15	9
Circular Notes, Letters of Credit, Commission, and Contingencies	237,912	11	5	Foreign and Colonial Govt. Securities	219,050	10	–
Acceptances for Customers	3,516,287	12	4	British Corporation and Railway Stocks	2,484,626	12	8
Liabilities by Endorsement on Bills	36,525	10	8	Other Investments	1,257,084	9	10
Rebate on Bills not due	32,617	14	4	Reserve Fund Investments	2,027,050	10	6
Profit and Loss A/c, balance as above	416,734	9	6	Bills Discounted	4,816,075	12	4
				Loans to Customers and others on Security	14,068,150	10	–
				Liability of Customers for— Acceptances as per contra	3,516,287	12	4
				Endorsements as per contra	36,525	10	8
				Premises and Fittings at Head Office and Branches	1,568,075	12	10
£	47,682,775	12	11	£	47,682,775	12	11

NOTES ON THE BALANCE SHEET

Cash. The order of Assets it will be noted is the cash order, or order of realisability. Cash at Bank of England denotes the balance of the bank's Current Account with the Bank of England. This balance acts as a reserve in cases of emergency.

Money at Call and Short Notice. This item denotes Loans to Bill Brokers, Stock Brokers, and others on security called " Floaters " (i.e. exchequer bonds, Consol certificates, and other first-class securities). Advances are also made on Dock Warrants, Consignments, Produce Documents, etc.

Bills Discounted. This amount represents the total of the bills discounted which have not yet matured.

Loans and Advances. This item denotes the loans made to its customers either as separate transactions or as overdrafts on current account, usually against the deposit of some security.

Liability of Customers for Acceptances and Endorsements. These items denote bills which the bank has accepted or endorsed on behalf of its customers. This is usually done in the case of foreign bills, as it greatly facilitates their negotiation abroad. The customer is, of course, liable to the bank, while the bank is liable to parties abroad. These items, therefore, appear on both sides of the Balance Sheet.

Rebate on Bills. As at balancing time many of the Bills Discounted will not have matured, it follows that all the Discount charged will not have been earned during the current period. The unexpired portion of such Discount is, therefore, debited to the Profit and Loss A/c and carried forward to the next half-year's accounts.

STATUTORY STATEMENT

Under the Companies Act, 1929, Section 131, every Limited Banking Company shall, before it commences business, and also on the first Monday in February and the first Tuesday in August of every year during which it carries on business, make a statement in the form set out in the Seventh Schedule to this Act, or as near thereto as circumstances admit.

SEVENTH SCHEDULE

FORM OF STATEMENT TO BE PUBLISHED BY BANKING AND INSURANCE COMPANIES, AND DEPOSIT, PROVIDENT, OR BENEFIT SOCIETIES

[1] The share capital of the Company is £ , divided into shares of each.

The number of shares issued is .

Calls to the amount of £ per share have been made, under which the sum of £ has been received.

The liabilities of the Company on the first day of January (or July) were—

Debts owing to sundry persons by the Company—

On judgment, £ .
On speciality, £ .
On notes or bills, £ .
On simple contracts, £ .
On estimated liabilities, £ .

The assets of the Company on that day were—

Government securities (*stating them*).
Bills of Exchange and promissory notes, £
Cash at the bankers, £ .
Other securities, £ .

[1] If the Company has no share capital, the portion of the statement relating to capital and shares must be omitted.

A copy of the Statement must be put up in a conspicuous place in the registered office of the Company, and in every branch office or place where the business is carried on.

QUESTIONS ON CHAPTER XXV

1. State briefly the services rendered by the modern banker to commerce and industry.
2. How does a banker make his profits? What are the special features of Bank book-keeping?
3. Explain briefly the use of the following books: (1) Receiving Cashier's Counter Cash Book, (2) Paying Cashier's Counter Cash Book, (3) Received Waste Book, (4) Goldsmith's Book, (5) Bills Received for Collection Register, (6) Bills Received for Discount Register, (7) Discount Ledger.
4. What are Current Accounts? What is the practice with regard to interest thereon?
5. Explain the following: (*a*) Deposit Account, (*b*) Bank Pass Book, (*c*) Bankers' Clearing House, (*d*) Statutory Statement.
6. What are " slips "? Explain briefly the slip system of Ledger posting.

EXERCISE XXV

1. What do you understand by the " slip system of Ledger posting "? To what classes of business can the system be advantageously applied? Illustrate your answer by giving *pro forma* posting slips applicable to the business you select. (*Royal Society of Arts.*)

2. After writing up the Profit and Loss A/c, the general Ledger balances of the Conservative Bank, Ltd., as on 31st December, were as follows: Paid up Capital, £1,500,000; Cash at Bank of England and in hand, £2,600,980; Customers' Current and Deposit Accounts, £17,580,000; Bills Discounted, Loans and Advances, £14,482,000; Freehold Premises, £380,000; Rebate on Bills discounted, not yet due, carried to next account, £24,300; Reserve Fund, £1,200,000; English Government Securities, £1,250,000; other Government Securities, £520,000; Profit and Loss A/c (undistributed balance),

£110,680; Securities pledged with Public Bodies, £81,000; Indian and Colonial Securities, £1,101,000.

On the same date (31st December) the acceptances on behalf of customers, and for which they were liable, appeared in the "Acceptances Book" of the Bank at £1,725,420.

Prepare a Balance Sheet as on 31st December. (*London Chamber of Commerce*).

3. Describe briefly the books of account which you would expect to find in use in a bank. State what the "General Ledger" of a bank should contain, and what information you would expect it to afford. (*London Chamber of Commerce.*)

4. On 25th January, John Smith called at the Union Bank of London and paid in the following—

Gold	£25	–	–
Bank of England Notes	50	–	–
Cheque drawn on the Old Bank, York . . .	62	–	–
Cheque drawn on the Joint Stock Bank, Princess Street, E.C.	41	–	–
	£178	–	–

Trace the history of the above items as they would appear in the books of the Union Bank of London. (*Royal Society of Arts.*)

5. The undermentioned items appear in the General Ledger balances of the Loamshire Bank, Ltd.—

(*a*) "Cash in hand, £2,462,986 10s. 6d."

What does this item include, and where would you place it in the published accounts of the Bank?

(*b*) "Loans at short notice, £6,541,241 19s. 10d."

Explain briefly what this item would consist of, and denote its proper place in the published accounts of the Bank.

(*c*) "Liabilities of customers on acceptances, £2,572,481 16s. 8d."

What does this item mean, and how would you deal with it in the published accounts of the Bank? (*London Chamber of Commerce.*)

6. What do you understand by "Rebate on bills discounted," and how would you treat this item when preparing the Profit and Loss A/c and Balance Sheet of a bank? (*Royal Society of Arts.*)

7. From the following particulars draw up the account of Robert Collins, 12 Lupus Avenue, Leighton, as it would appear in the Bank's Current Account Ledger on 30th June—

19..		£	s.	d.	19..		£	s.	d.
Jan. 5	To cheque, Jones .	115	–	–	Dec. 31	By Balance	1,144	7	6
Feb. 3	„ „ Wilson .	20	–	–	19..				
Mar. 3	„ „ Trumper	75	1	–	Feb. 14	„ Cash .	240	–	–
Apr. 5	„ „ Freeman	24	–	–	Apr. 3	„ „ .	64	–	–
16	„ „ Paley .	41	–	–	May 1	„ „ .	76	–	–
May 12	„ „ Longe .	20	13	6	„ 23	„ „ .	190	–	–
17	„ „ Fisher .	54	5	–					
June 2	„ „ Smith .	74	4	8					
15	„ „ Self .	40	–	–					

Interest to be allowed at 2% p.a. on daily balances, and ¼% to be charged on turnover.

8. From the following particulars draw up the account of Frederick Stevens,

27 Montgomery Mansions, Leverbridge, as it would appear in the Bank's Current Account Ledger on 30th June—

19..			£	s.	d.	19..		£	s.	d.
Dec. 31	To balance	. .	554	5	6	Jan. 26	By Cash .	137	1	2
19..						Feb. 19	„ „ .	130	5	6
Jan. 17	„ cheque,	Self .	20	–	–	Mar. 29	„ „ .	116	4	2
Feb. 12	„ „	Temple .	74	5	6	May 1	„ „ .	98	5	2
Mar. 3	„ „	Grey .	100	–	–					
Apr. 2	„ „	Self .	40	–	–					
23	„ „	Williams	35	–	6					
26	„ „	Roberts.	54	12	2					
June 21	„ „	Mills .	26	4	2					
27	„ „	Thomson	160	4	8					

Interest to be charged at 1% over Bank Rate, with a minimum of 4% p.a. On 31st December the Bank Rate was 3%, on 26th January 3½%, on 29th March 4%, on 21st June 4½%. Overdraft limit, £600. One-quarter per cent also to be charged on turnover.

9. R. Craven opens a Bank Account on 1st January with the Rosedale Banking Company and deposits on that day £1,000. He pays in as follows: 20th January, £500; 20th March, £600; 20th May, £700; and he draws out on 20th February £1,200, on 20th April £1,000, and on 20th June £500. Calculate the Bank Interest, counting 5% on customer's debit balances and 2% on credit balances, and close the account on 30th June. (*Incorporated Accountants.*)

10. From the following particulars of a Bank Pass Book calculate the Interest to 30th June, charging 5% on debit balances, and allowing 2½% on credit balances—

J. Gaukroger in account with the Blankshire Banking Company, Limited.

Dr.						*Cr.*				
		£	s.	d.				£	s.	d.
Jan. 1	To Balance .	2,710	4	–	Jan. 1	By Cash .		27	10	–
„ 15	„ Cash .	280	12	–	„ 30	„ „ .		824	6	–
Feb. 1	„ „ .	420	3	–	Feb. 29	„ „ .		4,172	17	–
„ 15	„ „ .	36	14	–	Mar. 31	„ „ .		718	5	–
Mar. 15	„ „ .	910	2	–	May 31	„ „ .		1,500	–	–
Apr. 15	„ „ .	2,020	3	–	June 30	„ „ .		180	–	–
May 15	„ „ .	315	–	–						
June 15	„ „ .	280	–	–						

(*Incorporated Accountants.*)

11. You are asked to devise as simple a method as possible to enable a firm to check its bank interest. Exemplify your method by ascertaining the rate allowed for credit balances in the following account, where it is known that the charge for overdraft is 5%—

J B in account with the Northland Banking Company. On 1st April the balance to the credit of J B was £250. J B paid in £850, £170, £200 and £650 on 17th April, 20th May, 13th June and 3rd July respectively; and drew out £400, £1,070, £500 and £400 on 11th May, 4th June, 19th June and 30th July respectively. The total net sum allowed for Interest to 31st August was 12s. 11d. only. (*Incorporated Accountants.*)

12. The General Ledger of the Loamshire Bank, Ltd., contained the undermentioned balances as on 31st December. Explain briefly what the figures represent, and where they would appear in the Balance Sheet of the Bank.

(1) Current Accounts A/c . . .	£12,674,491
(2) Investments A/c	7,832,922
(3) Rebate on Bills not due . . .	12,466
(4) Short Loans A/c	5,432,768

(*Royal Society of Arts.*)

13. Explain briefly the methods employed in order to keep the books of a Bank constantly posted.

On 31st July, George Reimers paid in the following to his Bank in the City—

Cheque (Geo. Smith, London)	£15
,, (Robt. Robinson, London) . . .	20
Gold	10
Bank of England Notes	20

Describe the passage of the above items through the books of the Bank from the moment of their receipt until credited to the account of George Reimers. (*Royal Society of Arts.*)

14. From the following figures taken from the books of the Camberwell Banking Company, Limited, you are requested to draft as at 31st December (*a*) a Trial Balance, (*b*) a Balance Sheet, (*c*) a Profit and Loss A/c; and then append, as Auditor, your certificate for publication and presentation to the shareholders.

Current and Deposit A/cs	£7,731,450	Cash in hand and at Bank of England . .	£1,584,750
Acceptances on behalf of Customers . . .	1,200,000	Money at Call and Short Notice . . .	274,250
Capital subscribed, 50,000 shares of £40 each, £25 per share paid . .	1,250,000	Consols (Reserve Fund) .	600,000
Reserve Fund (invested in Consols) . .	600,000	Consols and Securities guaranteed by British Government . .	825,000
Profit and Loss A/c, balance to Credit, 1st January . . .	15,300	Colonial and Railway Stocks . . .	637,500
Interest accrued and paid	25,500	English Corporation Stocks	235,500
Current Expenses, Salaries, Rent, etc. . .	71,250	Bills Discounted . .	379,500
Amount added to Staff Retirement Fund .	3,000	Loans and Advances .	4,665,000
Premises A/c, amount written off . .	22,500	Bank Premises, Furniture, etc.	337,500
Gross Profit for the year after providing for Bad and Doubtful Debts .	244,500	Freehold and Leasehold Properties . . .	180,000

(*National Union of Teachers.*)

15. Name three of the accounts which you would expect to find in the General Ledger of a Bank. Briefly explain their purpose, and describe the sources from which they have been written up. (*Royal Society of Arts.*)

16. The understated items have been extracted from the accounts of a Bank. Explain briefly what they represent—

" Liabilities of Customers on Acceptances as per contra." (Cr. side of Balance Sheet.)

" Rebate on Bills not due." (Dr. side of Balance Sheet.)

" Money at Call and Short Notice." (Cr. side of Balance Sheet.)

" Bills Discounted." (Cr. side of Balance Sheet.)

(*Royal Society of Arts.*)

REVISION EXERCISE XXV

The following book-keeping tests are recommended to be worked by students in the prescribed time of three hours—

I.—Royal Society of Arts Book-keeping (Advanced) Examination, 1929.

1. A Limited Company has issued £20,000 6 per cent Debentures as Collateral Security for a Bank Loan of £16,000.

How should this transaction be shown in the Company's annual Accounts?

2. Blanks, Ltd., was registered without special Articles of Association, Table "A" having been adopted.

During the year ended 31st December, 1928, Sundry Shareholders had paid £500 in advance of calls. No interest on these calls in advance had been passed through the books—"because the year's trading had resulted in a Loss." X and Y, two shareholders, were in arrears with their calls to the extent of £200, and 10 per cent interest on this amount had been taken credit for as interest on calls in arrear.

If you do not approve of the above treatment, how should you amend it?

3. The capital of Dicksons, Ltd., a new Company, consisted of 100,000 Shares of £1 each. The whole of this Capital was subscribed by the public and fully paid up.

The Directors of the Company instruct you to initial all the Share Certificates before presenting them for sealing.

What documents, or other information, should you require before passing these Share Certificates as correct?

4. Describe the form and uses of Bin or Locker Cards, as employed in the Stores Department of a Manufacturing Business, and state how they facilitate stocktaking.

5. Blanks, Ltd., was registered in 1912 with a Nominal Capital of £300,000, consisting of 100,000 "A" 6 per cent Preference Shares of £1 each, 100,000 "B" 7 per cent Preference Shares of £1 each, and 100,000 Ordinary Shares of £1 each. The whole of the "A" Preference Shares, 85,000 of the "B" Preference Shares, and 90,000 of the Ordinary Shares were subscribed and fully paid up. The Company had also issued 200 5 per cent Debentures of £100 each, 150 of which were subscribed and fully paid.

The Company met with trade reverses, and, as on 1st January, 1928, a reconstruction scheme was carried through. Under this scheme the "A" and "B" £1 Preference Shares were reduced to a like number of shares of 15s. each, and the Ordinary Shares of £1 each to a like number of shares of 10s. each. The amount thus rendered available was applied to writing off the debit balance of the Profit and Loss Account and to the reduction of certain assets, the balance of the amount (£15,986) being carried to a Reserve Account.

In addition to the accounts necessary to record the above particulars, the following balances were extracted from the books of the Company as on 31st December, 1928—

	£
Dividend on "A" Preference Shares (to 30th June, 1928)	2,250
Leasehold Factory	119,517
,, ,, Redemption Fund	6,650
5 per cent War Loan	6,650
Sundry Investments	4,000
Stock (31-12-1927)	21,872
Machinery and Plant (31-12-1927)	36,440
,, ,, purchased during the year	3,870
Directors' Fees	1,200
Sundry Debtors	21,480

	£
Sundry Creditors	9,872
Bad Debts Reserve (31/12/1927)	700
" " written off	827
Office Salaries and Expenses	6,391
Travellers' Salaries and Expenses	5,446
Discount Account (Debit Balance)	475
Factory Wages	22,868
Interest Account and General Expenses (Factory ⅝, Office ⅛)	3,978
Cash in hand	1,274
Cash at Bank	8,786
Purchases	67,854
Purchases Returns	927
Sales	131,740
Sales—Returns	321
Apprentices' Premiums	600
Motor Lorries	6,382
Loose Tools	1,587
Insurance (Factory ⅝, Office ⅛)	870
Machinery Repairs	387
Patents	20,500

You are required to prepare the Company's Manufacturing and Profit and Loss Accounts for the year ended 31st December, 1928, and a Balance Sheet as on that date.

When preparing these accounts, the following matters are to be taken into consideration—

(*a*) The Bad Debts Reserve is to be made up to £1,000.

(*b*) Machinery and Plant is to be depreciated as follows: Old Balance, 15 per cent; the additions are valued at £3,500.

(*c*) "Sundry Investments" are to be revalued at their present market value, viz. £4,800.

(*d*) The Stock on Hand as on 31st December, 1928, was valued at £21,741, the Motor Lorries at £5,000, and Loose Tools at £972.

(*e*) "Factory Wages Account" has been debited with £58 advanced to an injured workman at the request of the Insurance Company, pending the settlement of the claim.

(*f*) One-third of the "Apprentices' Premiums" covers the years 1929 and 1930.

(*g*) £60 of the "Insurance" item covers a portion of the year 1929.

II.—London Chamber of Commerce Book-keeping (Senior) Examination, 1929.

1. McArthurs, Ltd., presented accounts to their shareholders for the year ended 31st December, 1928, showing a profit for the year of £19,784, and a balance brought forward from the previous year of £3,745.

It was proposed (*a*) to carry £5,000 to the Reserve Account (making that Account £20,000); (*b*) to pay the half-year's dividend due on the 7 per cent Preference Capital (£50,000); and (*c*) to pay a dividend of 10 per cent, less tax, on the Ordinary Capital (£100,000); and (*d*) to carry forward the balance to next year.

As on 1st February, 1929, the warrants representing the above dividends had all been duly paid with the exception of those in respect of holdings of 500 and 100 Ordinary Shares, which remained unpresented.

You are required to make the entries necessary to record the above particulars as on 1st February, 1929.

2. Submit the entries necessary to record a fresh issue of Ordinary Shares at a premium by an old-established company. Select your own details.

3. When preparing the accounts of a limited company you find that £5,000 has been received at various dates during the year, representing calls paid in advance by sundry shareholders. On investigation you find that the Articles empower the directors to receive such payments and to allow interest thereon at a rate not exceeding 5 per cent per annum.

The Secretary of the company informs you that no entries regarding interest have been passed through the books as the company has made a loss for the year.

What are your views?

What entries (if any) should, in your opinion, be made?

4. In connection with the preparation of Cost Accounts, what is meant by basing Oncost on the "Machine-hour method"?

5. Blanks, Ltd., was registered with a Nominal Capital of £450,000, divided into 50,000 5 per cent "A" Preference Shares, 200,000 7 per cent "B" Preference Shares, and 200,000 Ordinary Shares, all of £1 each. On 30th June, 1927, all the "A" Preference Shares, 100,000 of the "B" Preference Shares, and 150,000 of the Ordinary Shares had been issued and were fully paid with the exception of 60,000 of the Ordinary Shares, on which only 15s. per share had been called up. The credit balance of the Profit and Loss Account, after paying the dividends, etc., sanctioned at the Ordinary General Meeting held in September, 1927, was £17,343.

The directors made the final call of 5s. per share on the partly-paid Ordinary Shares, the due date being 31st October, 1927, and the call was duly paid. In January, 1928, the following interim dividends were declared in respect of the half-year ended 31st December, 1927: (*a*) on both classes of Preference Shares at the rates to which they were respectively entitled, and (*b*) on the Ordinary Shares at the rate of 10 per cent per annum, calculated on the amounts from time to time paid up on the respective shares.

In addition to the balances arising from the entries recording the above, the following were extracted from the company's books as on 30th June, 1928—

	£
Leasehold Premises	40,000
Leasehold Redemption Fund, 30/6/1927	13,200
Policy Account for Leasehold Redemption, 30/6/1927	13,200
Premium on above policy (paid 31/3/1928)	1,200
Directors' Fees	1,500
Stock in Trade, 30/6/1928	103,523
Plant and Machinery, 30/6/1927	38,000
Sundry Debtors	84,560
Sundry Creditors	23,552
Bad Debts Reserve, 30/6/1927	750
Bad Debts written off, to be charged against Reserve	372
Income Tax Reserve, 30/6/1927	8,290
,, ,, paid, 1/1/1928	5,692
Salaries and Commission	7,291
Discount (*Dr.* Balance)	1,175
Office and Trade Expenses	2,368
Gross Trading Profit	47,537
Cash at Bank and in hand	27,391
Goodwill	75,000

You are required to prepare the company's Profit and Loss Account for the year ended 30th June, 1928, and a Balance Sheet as on that date.

When preparing these accounts the following instructions are to be followed—

(*a*) The Plant and Machinery is to be depreciated 15 per cent.

(*b*) The Bad Debts Reserve is to be made up to £500.

(*c*) The Policy Account for redemption of the Lease is to be debited with interest at 3 per cent per annum on the balance from time to time standing on the account.

CHAPTER XXVI

INCOME TAX AND NATIONAL DEFENCE CONTRIBUTION

Definition. Income Tax is a fixed charge on each pound sterling of income from whatever source.

Persons Liable to Income Tax. All persons resident in Great Britain and Northern Ireland, whether British subjects or not, are liable to assessment; and also all persons not resident within Great Britain and Northern Ireland (whether British subjects or not) in so far as they derive income from property, trade, or employment in Great Britain and Northern Ireland.

Taxation of Income at the Source. So far as possible, income is taxed *at its source,* the person who pays the income at the fountain head being liable to the Income Tax Authorities for tax thereon or for any tax that should be deducted therefrom.

Schedules of Income Tax. The Income Tax Act, 1918, enumerates the five schedules under which income tax is levied. They are as follows—

Schedule A, income from the ownership of land, buildings, etc.
Schedule B, income from the occupation or use of land.
Schedule C, income from Government and public stocks.
Schedule D, income from trade, profession or vocation, etc.
Schedule E, income from offices or employment.

Income Tax Commissioners. Income Tax Commissioners are of two kinds: General or District Commissioners, and Special Commissioners.

District Commissioners are influential persons with certain property qualifications, appointed, without remuneration, for the different districts. They elect the Additional Commissioners, and also hear appeals against assessments made by the latter. **Additional Commissioners** are persons selected by the General or District Commissioners from among themselves. They fix the amount of the assessment after consultation with the Assessor and the Inspector of Taxes. **Special Commissioners** are Government Officials with offices in High Holborn, W.C.1. Their duty is to assess all taxpayers who wish to be assessed by them; to hear appeals, in London and throughout the country, against their own assessments and also against the assessments made by the Additional Commissioners. They can be called upon by the taxpayer to state a case, on a point of fact, for decision by the Board of Inland Revenue. On questions of *fact,* the decision of the District Commissioners is final, there is no appeal; but, on questions of *law,*

an appeal can be made to the High Court and thence to the Court of Appeal, and to the House of Lords, against the decision of either the Special or the District Commissioners. The Special Commissioners assess Railway Companies under Schedule D, Railway Officials under Schedule E, Interest and Dividends from public stocks under Schedule C, and they also make sur-tax assessments. The Commissioners of Inland Revenue are *ex-officio* Special Commissioners.

Official Year of Assessment. The year of assessment is the Government's financial year, which runs from 6th April of one year to 5th April of the next year.

Income Tax Officials. Assessors are paid officials appointed by the District Commissioners. Their duty is to issue the general notices (affixed to the doors of churches, chapels, etc.) requiring all persons liable to income tax to make a return of their income. They also make assessments under Schedules A, B, D, and E. Where no return is made, the assessor estimates the amount of income and inserts it. The list of the names and amounts is in each case handed to the Commissioners. Assessments under Schedules A, B, and E are passed to the Inspector of Taxes, and assessments under Schedule D to the Additional Commissioners, for examination, before being allowed by the District Commissioners. The **Inspector of Taxes** (formerly called the Surveyor of Taxes) is a paid official of the Board of Inland Revenue. Early in April of each year, he issues the well-known Form No. 1 to firms, companies, corporations, societies, and other bodies of persons, and Form No. 11 to individuals, having untaxed income liable under Schedule D. He also issues Form No. 12 to all individuals liable under Schedule E. Forms Nos. 11 and 12, in addition to the sections dealing with the various sources of income, contain also sections relating to the various allowances and reliefs which may be claimed by individuals. The forms must be completed and returned within twenty-one days. Every person, whether liable to tax or not, must make a return when called upon to do so (Income Tax Act, 1918, sec. 100). Where a person has a business address as well as a private residence, e.g. an employee or a partner in a firm, double forms may be received (1A, 11A, 12A, issued by assessors). Only one form need be filled up. On the second form it is sufficient merely to sign the declaration that a full Return has been made elsewhere, and add the address of the business, or the private residence, as the case may be. The Inspector's duty is to supervise the returns of taxpayers and the assessments made by the Assessors before they are allowed by the Commissioners. He is also empowered to fill in omissions, amend assessments, and to make surcharges. The amount of the assessment can generally be satisfactorily arranged with the Inspector if proper accounts are furnished. Notice of appeal against an assessment must

be forwarded in writing, within twenty-one days of the date of the assessment notice, to the Inspector of Taxes, who appears before the District or Special Commissioners in support of the assessment.

The standard rate for 1938–39 is 5s. 6d. in the £, but the first £135 of taxable income is charged at 1s. 8d. in the £.

Statutory, Assessable, and Taxable Income. The **statutory** income of a person is his total income from any, or if he has more than one, from every source, stated in accordance with the provisions of the Income Tax Acts. From some sources (Schedule C), the "income" required is the *actual* income of the year of assessment; from other sources (Schedules D, E), it is the income of the year *previous* to the year of assessment; from other sources (Schedule B), it is an *assumed* income. The **assessable** income of a person is his total statutory income less the allowance made in respect of earned income. The **taxable** income of a person is his assessable income (or his statutory income if he has no earned income) less the allowances made for himself, housekeeper, dependent relatives, and, if married, his wife and children. For an example see page 996.

Earned Income. This includes salaries and wages of employees, pensions, etc., salaries from public office or employment, managing director's remuneration, profits from the occupation of farms, profits from trade or business, including partners' salaries and interest on their capital in the case of acting partners. Where there are dormant or sleeping partners, the profits of such partners are regarded as *investment income.* The precedent acting partner of a firm has to make a declaration as to whether each partner is a "sleeping" or "acting" partner.

Unearned or Investment Income. Under this heading will be included all income obtained without personal service or effort, such as rents from the ownership of land, houses, etc., dividends from investments, interest on money lent, profits from business or trade in the case of a dormant or sleeping partner. When a private firm is converted into a limited company, its profits become *investment* income instead of earned. The tendency of limited companies, especially private companies, is to remunerate the directors by means of a percentage on the annual profits, as such income is then *earned* income; whereas if the profit is distributed by way of *dividend*, it would be unearned income.

SCHEDULE A

Scope of Tax. The tax under Schedule A is levied on income derived from the *ownership* of house property, land, buildings, etc. This tax is commonly spoken of as landlord's tax or property tax.

Annual Value. The annual value of property is its annual value to be let by the year, that is the amount it would bring in if the property were so let. If the owner of premises occupies

them himself, the annual value is deemed to be his income therefrom, although he does not actually receive anything in money.

How House Property is Assessed. Assessments of house property are made every five years. Forms are issued quinquennially to all occupiers of premises, who are required to state the amount of rent paid, and whether the rates are paid by the landlord or by the tenant. A reduction in the assessment may be claimed should the value of the property afterwards decline. An appeal can also be made to have the assessment cancelled or reduced when a house has not been occupied for the year of assessment or for any part of it. A statutory allowance off the gross assessment is made for repairs, the occupier being expected to bear the rates and taxes. Where the tenant bears the rates and taxes, and also the cost of repairs, the statutory allowance will not be made; the assessment will be the amount of rent payable. Where the tenant bears the rates and taxes, but not the repairs, the assessment will be the amount of rent payable *less* the statutory allowance. Where the owner bears both rates and taxes and repairs, the assessment is based on the amount of rent receivable, *less* the statutory allowance and also rates and taxes.

The following are now the allowances—

Where the gross assessment does not exceed	£40	One-fourth
,, ,, ,, exceeds	£40 but not £50	£10
,, ,, ,, exceeds	£50 but not £100	One-fifth
,, ,, ,, exceeds	£100	£20

plus one-sixth of the amount by which the assessment exceeds £100

Example—

	£	s.	d.
Yearly Rent at 17s. 6d. per week	45	10	–
Less Rates (paid by Landlord)	11	–	–
Gross Annual Value	34	10	–
Less Allowance for Repairs (one-fourth)	8	12	6
Net Annual Value	£25	17	6

How Farm Property is Assessed. The assessments of farm or agricultural property are made in a similar manner, *less* the amount of tithe payable and land tax. With this kind of property, however, repairs are not such a heavy item of expense, and, consequently, the statutory allowance for repairs is only one-eighth. The following is an example—

Yearly Rent	£480
Less Allowance for Repairs, one-eighth	60
	420
Less Tithe (assessed on Owner) say	40
Net Annual Value	£380

Maintenance Claim. Where the cost of repairs and maintenance, upon the average of the preceding five years, exceeds the deduction allowed for the purpose, a claim may be made for repayment of tax suffered on such excess cost.

Collection of Tax under Schedule A. The tax under Schedule A is usually collected from the tenant, and the tenant is empowered by law to recoup himself by deducting the amount of the tax so paid from his next payment of rent. The landlord is bound by law, on being shown the official receipt, to allow such a deduction. Where, however, the net assessment is higher than the rent, the tenant can only recover tax on the actual rent he pays. Thus, if the net assessment is £70 and the rent £60, the tenant will pay tax on £70, but can only deduct from the landlord tax on £60. He must bear the tax on £10 himself, as he has a beneficial interest in the assessment. In cases where the annual rent of property is less than £10, and also where land and buildings are let for a less period than one year, the tax under Schedule A is levied direct on the landlord.

The landlord may, if he wishes, ask the Commissioners to levy the tax on his property direct on himself instead of on the tenant. If so, he must, before the 31st of July in the year of assessment, make application to the Inspector of Taxes for the special form necessary. In case of default, however, the tax can still be levied on the tenant.

Nature of Income Taxed under Schedule A. Income assessable under Schedule A is treated as *investment* income, but in cases where a house, rent free, forms part of a person's salary or emoluments, the net annual value is, *if assessable*, regarded as *earned* income.

SCHEDULE B

Scope of Tax. The tax under Schedule B is levied on the profits arising from the *use* of agricultural lands, including farms, nursery and market gardens, etc.

Land not wholly used for the purpose of husbandry is assessed at one-third of the gross annual value. Dwelling houses with not more than one acre of garden are not assessed under Schedule B. Where more than one acre is attached to a dwelling house, the excess is chargeable under Schedule B at one-third of the gross annual value, i.e. of the rental value.

Mode of Assessment. Assessments under Schedule B are made quinquennially. They may be reduced if the rent is lowered, but they are not liable to any increase if the rent is raised. The assessment may also be reduced in cases where floods or storms have damaged growing crops or rendered land unfit for cultivation, provided the landlord has made an abatement in the rent. Owing to the difficulty of estimating profits arising from husbandry the Schedule B assessment is fixed by reference to the annual value of

the lands, and since 1922-23 the gross Schedule A assessment constitutes the assessment for Schedule B.

Thus, suppose the gross annual value of a farm is £664 (land £594, farmhouse £70); this amount is estimated to be the farmer's statutory income or profit from it. If the farmer owns the farm as well as occupies it, he will pay income tax under two schedules: under Schedule A on £575 15s. (£664 *less* £88 5s. for repairs); under Schedule B on the assumed profit or income of £664. Where the farmhouse is occupied by the owner, or is let separately from the land, the allowance for repairs is the scale allowance, and not the flat rate of one-eighth. If the farmer in the foregoing case were the tenant and not the owner, he would pay tax under Schedule A on £581 (£664 *less* one-eighth for repairs, £83); as he is the owner, the scale allowance for repairs on the farmhouse is $\frac{1}{5}$ of £70 = £14, and the allowance for the land is $\frac{1}{8}$ of £594 = £74 5s., the combined allowances totalling £88 5s. (£74 5s. + £14). Under the Income Tax Act (Rule 6) if the farmer can furnish satisfactory proof that his income from working the farm is lower than the statutory income, he can claim return of tax on the difference between the two amounts. An appeal must be made within 12 months from the close of the year to which it refers (Finance Act, 1923, Section 30).

Nurseries and market gardens are (Rule 8) assessed according to the rules applicable to Schedule D, although the tax is charged under Schedule B.

Option of Assessment under Schedule D. A farmer has the option of being assessed under Schedule D on the previous year's profits. He must, however, give notice to the Inspector of Taxes within two months of the commencement of the year of assessment (i.e. before the 6th June); and he must also furnish accounts in support of his claim.

Nature of Income Taxed under Schedule B. Income taxable under Schedule B is regarded as *earned* income.

SCHEDULE C

Scope of Tax. Tax is levied under Schedule C on all profit from interest, dividends, annuities, etc., payable out of public funds. This comprises the funds of Great Britain or Northern Ireland, the Colonies, and also any foreign stock the dividend or interest on which is paid by an agent or bank in Great Britain or Northern Ireland. Where the interest and dividends on foreign public stocks are not paid by an agent resident in Great Britain or Northern Ireland, such interest and dividends are taxed under Case IV, Schedule D.

Mode of Assessment. Under Schedule C, tax is charged on the actual income of the year of assessment.

Collection of Tax. In most cases, tax on dividends and interest is collected at the source. The bank or agent making the payment is authorized by law to deduct and retain the tax. The tax has afterwards to be remitted in one lump sum to the Inland Revenue Authorities. There are, however, exceptions to this rule. Where any dividend payable out of the Public Funds for the half-year does not exceed 50s., such dividend is paid in full, and any tax payable thereon is collected from the recipient under Case III, Schedule D. Interest on certain other registered or inscribed securities issued in connection with the war is paid without tax being deducted; and such interest is assessed under Case III, Schedule D.

Nature of Income Taxed under Schedule C. Income taxable under Schedule C is regarded as *investment* income.

SCHEDULE E

Scope of Tax. Under Schedule E, tax is levied on all income from public offices or employment, from annuities (except those taxed under Schedule C), pensions, and stipends payable out of the public revenue, or by public or limited companies, or private firms.

Mode of Assessment. Assessments are made, under Schedule E, on officials of the Government, including the Civil Service, officials of the law courts, and of any public body, society or corporation, and on officers of the Navy and Army. Employees of limited companies and private firms are also assessed under this schedule. Directors Fees are also chargeable under Schedule E, tax being levied direct on the recipient.

The normal basis of assessment is the income of the previous year ending 5th April.

When the income first arises the actual income of the year is the basis of assessment. For the second year, the assessment is also the actual income of the year, unless the income arose on the 6th April in the preceding year, in which case the assessment is the actual income of such preceding year. Thereafter, the assessment is on the previous year's income. For the year in which the " preceding year's income " rule operates for the first time, the taxpayer may claim to have the assessment reduced to the actual income of that year, but the Revenue authorities have no corresponding power to increase the assessment to the actual income of that year.

When employment or title to the income ceases, the assessment for the year of cessation is adjusted (up or down) to the actual income of that year. If the actual income of the year preceding cessation exceeds the assessment for that year, the Revenue authorities have power to raise an additional assessment in respect of such excess, but the taxpayer has no corresponding right to claim

reduction in the assessment if the actual income of the year preceding cessation is less than the assessment for that year.

How the Tax is Collected. The tax under this schedule is generally paid by the individual himself. In Government offices, however, tax is deducted from the salaries paid to officials. Railway companies are also empowered to deduct tax from the salaries paid to their employees, except weekly wage-earners.

Return of Employees and Salaries. Employers, corporations, and limited companies may be required under Section 105 of the Income Tax Act, 1918, to make a return of the names and addresses of their employees, and of the salaries, fees, commission, bonus, etc., paid to them. The payments made to employees whose incomes do not exceed £125, and who are not employed in any other employment, may, however, be omitted.

Half-yearly Assessments. Weekly wage-earners engaged in manual labour are assessed half-yearly on their wages arising from such employment. Returns are required to be made by employers according to the regulations of the Board of Inland Revenue. The assessments may be made at the place of employment or at the residence of the employee. Clerks, typists, and persons employed in any similar capacity are not assessable half-yearly and their names are not included in the list required for this purpose. They should be included in the schedule of employees mentioned in the preceding paragraph.

Salary Free of Tax. In the case of a salary paid *free of tax*, tax is payable on the gross amount, that is, on such a sum as will, when the tax is deducted, leave the exact amount of the salary paid to the employee. If the amount of the tax is known, the assessment will be the amount of the previous year's salary plus the previous year's tax. But where the amount of the tax is not known as in the case of a new employee, or where it is not given as in an examination question, it has to be calculated. The treatment of the allowances granted to the employee is a matter for agreement between the parties concerned; in some instances the employer takes the benefit of the allowances, in others the employee, and sometimes the benefit is shared between them. For an example see page 997.

Nature of Income Taxed under Schedule E. Income taxed under Schedule E is regarded as *earned* income.

SCHEDULE D

Scope of Tax. Income taxable under Schedule D comprises all income arising from the following—

Case I. Trade, Manufacture, Adventure, or concern in the nature of Trade, Profits of Railways, Mines, Quarries, Markets, Gas, and Water Works.

Case II. Professions or Vocations.

Case III. Profits of an uncertain annual value not charged under Schedule A (i.e. discounts and interest on money not taxed by deduction), and also tithes.

Case IV. Profits from Colonial and Foreign Securities, where tax has not been deducted by the agent entrusted with payment thereof.

Case V. Profits from Foreign and Colonial Possessions.

Case VI. All annual profits or gains not included under the foregoing heads and not charged under any other schedule.

Mode of Assessment. Persons who are assessable to income tax under Schedule D have the option of being assessed either by the District Commissioners (*a*) in the ordinary course; (*b*) under a number or letter; or by the Special Commissioners. If they make no choice, they will be assessed in the ordinary course by the District Commissioners. Traders who have personal friends or business rivals among the local commissioners generally elect to be assessed by the Special Commissioners.

Returns for Assessment. Returns for assessment by the District Commissioners under a letter or number must be sent to the Clerk to the Commissioners. Returns for assessment by the Special Commissioners must be forwarded to the Inspector of Taxes under cover marked "For Special Assessment." In other cases, the form must be returned to the Assessor or Inspector by whom it was issued. The form must in all cases be filled up beforc being returned, even if the return is nil. Anyone who neglects to make a Return, or who makes an untrue or incorrect return, is liable to the penalties mentioned on the form.

Profits from Colonial and Foreign Securities. If these profits have been received through an agent who has deducted British income tax, they must not be entered on the Return Form. In cases where British income tax has not been deducted, the full amount of the income, whether received in Great Britain or Northern Ireland or not, must be returned for assessment, subject, in the case of income not received in Great Britain or Northern Ireland, to deduction for any Income Tax deducted at the source. The assessment is based on the income of the preceding year. This applies to securities, stocks, shares, and rents.

Profits from Colonial and Foreign Possessions. The amount to be entered in the form is the full annual amount remitted to the United Kingdom, based on the income of the preceding year, without any deduction.

Profits from Discounts, and Interest of Money not Taxed by Deduction. Under this heading are included all Discounts and untaxed Interest received or credited, Interest on Banking Account or Deposits, and also Dividends of which the half-yearly amount

does not exceed fifty shillings, where such dividends are not payable on coupons annexed to stock certificates payable to bearer. The normal basis of assessment is the income of the preceding year.

Changes in Investments. Section 30 of the Finance Act of 1926 provides that income from investments falling under Cases III, IV, and V of Schedule D may respectively be assessed and charged in one sum. But if in any year of assessment a person acquires a new source of income, or an addition to a particular source, the income therefrom is assessable separately along lines similar to those applicable in the case of a new employment under Schedule E. When the taxpayer ceases to possess a particular source of income, or any part thereof, the assessment in respect of his income from that source, or part, is adjusted, in the same way as if the cessor of possession were the discontinuance of a trade. Thus, the income assessable is virtually the actual income of the year of assessment, unless investments are held unchanged for a considerable period.

Profits of Trade, Profession, or Vocation. Where income is derived from the exercise of any business, profession or vocation, the amount of income to be returned for assessment in any given year is neither the actual income of that year, nor the income which a person expects to make in that year, but is a "statutory" income, the amount of which is to be computed from actual ascertained figures. These are the figures shown by the accounts of the business or profession for the year immediately preceding the year for which a return has to be made. It should be understood that the preceding year in this connection is taken to mean the year ended on the date falling within the preceding year of assessment to which the accounts are usually made up. The computation is to be made according to prescribed rules, of which the following is an abstract—

RULES FOR CALCULATING PROFITS

In computing the amount of the profits or gains to be charged, no sum shall be deducted in respect of—

(*a*) Any disbursements or expenses, not being money wholly and exclusively laid out or expended for the purposes of the trade, profession, or vocation:

(*b*) Any disbursements or expenses of maintenance of the parties, their families, or establishments, or any sums expended for any other domestic or private purposes distinct from the purposes of such trade, profession, or vocation:

(*c*) The rent or annual value of any dwelling house or domestic offices or any part thereof, except such part thereof as is used for the purposes of the trade or profession: Provided that where any such part is so used, the sum so deducted shall be such as may be determined by the Commissioners, and shall not, unless in any particular case the Commissioners are of opinion that, having regard to all the circumstances some greater sum ought to be

deducted, exceed two-thirds of the annual value or of the rent *bona fide* paid for the said dwelling house or offices:

(*d*) Any sum expended for repairs of premises occupied, or for the supply, repairs, or alterations of any implements, utensils, or articles employed for the purposes of the trade, profession, or vocation beyond the sum actually expended for those purposes:

(*e*) Any loss not connected with or arising out of the trade, profession, or vocation:

(*f*) Any capital withdrawn from, or any sum employed or intended to be employed, as capital in such trade, profession, or vocation:

(*g*) Any capital employed in improvements of premises occupied for the purposes of the trade, profession, or vocation:

(*h*) Any interest which might have been made if any such sums as aforesaid had been laid out at interest:

(*i*) Any debts, except bad debts, proved to be such to the satisfaction of the commissioners, and doubtful debts to the extent that they are respectively estimated to be bad. In the case of the bankruptcy or insolvency of a debtor, the amount which may reasonably be expected to be received on any such debt shall be deemed to be the value thereof:

(*j*) Any average loss beyond the actual amount of loss after adjustment:

(*k*) Any sum recoverable under an insurance or contract of indemnity:

(*l*) Any annual interest, or any annuity, or other annual payment payable out of the profits or gains, including any interest paid on arrears of excess profits duty or munitions exchequer payments.

(*m*) Any royalty or other sum paid in respect of the user of a patent.

Where the premises are occupied solely for the purposes of the trade, profession, or vocation, the net Schedule A assessment is allowed as a deduction. In the case of mills, factories, or similar premises, the gross Schedule A assessment may be deducted.

It will be observed that certain items are disallowed entirely, while others are limited or subject to conditions. The criterion to be applied as regards any item not specifically mentioned is whether or not it is an expense exclusively incurred for the purpose of the trade, profession, or vocation. Depreciation of fixed assets, except in the case of premises being mills, factories or similar premises, may not be deducted from the profits, but a deduction for wear and tear of plant and machinery may be claimed. Income tax payments are not regarded as a business expense, but as an appropriation of income already earned. The student, in studying the examples which follow, should carefully refer each item to the rules quoted above, and satisfy himself as to the provisions under which it falls to be treated.

The tax extends to all trades, professions, and vocations carried on in the United Kingdom, or elsewhere, by persons resident in this country; and also to all trades, professions, and vocations carried on in the United Kingdom by persons resident abroad.

Arrangements are, however, proposed (Finance Act, 1930) whereby reciprocal agreements may be made between H.M. Government and any Foreign or Colonial Government for the purpose of granting, within certain limits, exemption from double taxation in respect

of profits arising from the direct sale of goods through agencies established in the countries concluding such agreements.

PAYMENT OF TAX

Income tax is payable either (*a*) in one sum on the 1st January in the year of assessment, or (*b*) in two instalments. In the latter case one-half of the tax is due on the 1st January in the year of assessment, and the remaining one-half on the 1st July following the end of the year of assessment. The following statement shows how the tax is payable—

Schedule	*One Payment, on 1st January*	*Two Payments, on 1st January and 1st July*
A	In all cases not described in the next column.	Where income falls to be treated as " earned " income.
B	All cases not described in the next column.	Individuals and firms occupying the lands for purposes of husbandry only.
D	All cases not described in the next column, including— All companies, societies, bodies, etc.; All persons charged for unearned income, such as interest, foreign income, etc.	(1) Any individual or firm carrying on any trade, manufacture, adventure, or concern in nature of trade. (2) Any individual or firm exercising any profession or vocation.
E	—	In all cases, except where tax is deducted from salary.

Schedule A. If the tax due on the 1st January exceeds a quarter's rent, payment of the excess may be postponed until the following rent payment is due.

Schedule C. The tax is deducted before the interest concerned is received by the person to whom it is due.

ALLOWANCES

Provision is made for allowances to individuals (1) to grant relief to earned income as compared with investment income, and (2) to graduate the burden of the tax according to the income of the taxpayer and to his family responsibilities. The investment income of taxpayers whose age is 65 years or over, and whose total income does not exceed £500, is now treated as if it were earned income. In the case of married persons, this relief is granted when either husband or wife is of this age.

Exemptions. An individual who proves that his total income does not exceed £125 is entitled to exemption from income tax; and where the total income exceeds £125 but is less than £140 any income tax payable is limited to one-fifth of the amount by which

the income exceeds £125. [This provision was introduced by the Finance Act, 1935.]

Rate of Tax. Tax is chargeable at the full standard rate of 5s. 6d. in the £ on the total income from all sources. From the tax thus computed a deduction at the full standard rate is made in respect of earned income relief and the various allowances enumerated below. In addition, a deduction at the rate of 3s. 10d. in the £ is made in respect of the next £135 of income.

Earned Income Relief. An allowance of one-fifth is made in respect of earned income up to a limit of £1,500 (maximum allowance, £300).

Personal Allowance. Every individual is entitled to claim a personal allowance, irrespective of the amount of his income, viz.,

(*a*) In the case of a married man whose wife is living with him, or, if not living with him, is wholly maintained by him, the personal allowance is £180. If the total income includes any *earned* income of the wife, the personal allowance of £180 may be increased by four-fifths of the amount of the wife's earned income, but the maximum addition to the personal allowance must not exceed £45.

(*b*) In any other case the personal allowance is £100.

Examples. A is a single man earning a salary of £420 a year. His income from investments is £80. State the tax payable.

		£	s.	d.	£	s.	d.
Total Income . .	£420 + £80 = £500						
Tax @ 5s. 6d. . . .					137	10	-
Deductions—							
Earned Income Relief .	84						
Personal Allowance . .	100						
	184 @ 5s 6d. =	50	12	-			
Allowance at Reduced Rate	135 @ 3s. 10d. =	25	17	6			
					76	9	6
Tax Payable . . .					£61	-	6

B earns £300 a year and his wife £30. What is the tax payable?

		£	s.	d.	£	s.	d.
Total Income . . .	£330						
Tax @ 5s. 6d. . . .					90	15	-
Deductions—							
Earned Income Relief .	66						
Personal Allowance (£180 + £24)	204						
	270 @ 5s. 6d. =	74	5	-			
Allowance at Reduced Rate .	60 @ 3s. 10d. =	11	10	-			
					85	15	-
Tax Payable .					£5	-	-

C earns £540 and his wife £80. State the tax payable.

		£ s. d.	£ s. d.
Total Income . . .	£620		
Tax @ 5s. 6d. . . .			170 10 -
Deductions—			
Earned Income Relief .	124		
Personal Allowance (£180 + £45)	225		
	349 @ 5s. 6d.	= 95 19 6	
Allowance at Reduced Rate .	135 @ 3s. 10d.	= 25 17 6	
			121 17 -
Tax Payable . .			£48 13 -

Children. Any taxpayer who has a child or children living who are under 16 at the commencement of the year of assessment, or who are over that age, provided they are receiving full-time instruction at an educational institution, is entitled to relief from income tax equal to the amount of tax on £60 in respect of each such child. This allowance also applies to adopted children and to step-children. The relief is not allowed if the child is entitled in his own right to income exceeding £60 a year. In calculating this income, any amount to which the child is entitled as the holder of a scholarship or similar educational endowment is omitted. Children under apprenticeship or articles may be claimed for if the training period is for not less than two years, and if the emoluments do not exceed £13 a year, excluding any return of premium. Allowance may be claimed for children born *during* the year of assessment.

Example. A's salary is £450 a year, and he has investments (taxed at source) yielding £250 gross. He is married and has four children; two are under 16 years of age, one is 18 years old, but is receiving full-time instruction at a technical school; the other is 15½ years of age, but is at work, receiving £65 a year as wages. What tax will A have to pay?

		£ s. d.	£ s. d.
Total Income . . .	£700		
Tax @ 5s. 6d. . . .			192 10 -
Deductions—			
Earned Income Relief .	90		
Personal Allowance .	180		
Children's Allowances— 3 @ £60 . . .	180		
	£450 @ 5s. 6d.	= 123 15 -	
Allowance at Reduced Rate	135 @ 3s. 10d.	= 25 17 6	
			149 12 6
Tax Payable . .			£42 17 6

Notes. (i) The allowance cannot be claimed for the child who is 15½ years old, as his income exceeds £60 a year.

(ii) A should claim repayment of the difference between the amount of tax deducted from investment income (£68 15s.), and the amount for which he is liable (£42 17s. 6d.) as shown in the computation, namely, £25 17s. 6d.

Relatives Taking Charge of Children. An allowance of £50 is granted to a widower in respect of a female relative of his or of his deceased wife who is resident with him for the purpose of having charge and care of any children of his in respect of which the children's allowance may be claimed, or to a widow who has a female relative of hers or of her deceased husband living with her for the same purpose. In 1924 the allowance was extended to all widows and widowers who keep a housekeeper, whether they have children or not. If the widower or widow has no such female relative, the deduction may be claimed in respect of some other female person employed for that purpose. An unmarried person who has living with him, and who maintains at his own expense, either his widowed mother or some other female relative for the purpose of having care of the taxpayer's brothers and sisters in respect of whom the children's allowance can be claimed, is also entitled to a deduction of £50.

Example. A, a widower, whose earned income is £670, has three children under 16 years of age. To take charge of these children A's unmarried sister lives with him. What is his liability?

		£	s.	d.	£	s.	d.
Total Income	£670						
Tax @ 5s. 6d.					184	5	-
Deductions—							
Earned Income Relief	134						
Personal Allowance	100						
Children's Allowance	180						
Relatives' Allowance	50						
	464 @ 5s. 6d. =	127	12	-			
Allowance at Reduced Rate	135 @ 3s. 10d. =	25	17	6			
					153	9	6
Tax Payable					£30	15	6

Dependent Relatives. An allowance of £25 is granted to a taxpayer who maintains at his own expense (*a*) a relative of his or of his wife, who is incapacitated by old age or infirmity from maintaining himself or herself, (*b*) a widowed mother (whether incapacitated or not) of himself or his wife, (*c*) the taxpayer's daughter if she is resident with him, and if by reason of old age or infirmity he is compelled to depend upon her services. In the case of (*a*) and (*b*) the allowance is granted only if the income of the dependent relative does not exceed £50 a year. A female taxpayer can claim the above allowance under similar circumstances.

INCOME OF MARRIED WOMEN

To be Treated as Husband's Income. By the Income Tax Act, the income of a married woman living with her husband is deemed to be his income. Any profits from business, profession, etc., or untaxed income belonging to the wife must be returned for assessment by her husband.

Separate Assessment of Husband and Wife. If application is made by either husband or wife between the 6th January preceding the year of assessment and the 6th July in the year of assessment, income tax and sur-tax for that year will be assessed and charged on the respective incomes of the husband and wife as if they were not married, and claims for relief and allowance will be apportioned between them. It should be noted that the total amount of allowance is still determined by the aggregate income of husband and wife as hitherto. Earned income relief will be given in proportion to the income earned by the husband and wife respectively. The personal allowance (including any addition on account of wife's earned income), allowance for children and dependent relatives and the reduced rate of tax on £135 of income are given in proportion to the total income of husband and wife respectively, after deduction of one-fifth (or apportioned maximum) of their respective earned incomes. Deduction in respect of an adopted child or dependent relative is allowed to the person supporting the child or dependant. An allowance for insurance premiums (see below) is given to the person paying them.

Example. A has an earned income of £1,600 and an unearned income of £700. His wife's earned income is £400. They have three children under 16 years of age; A has adopted another child aged 5, and the wife supports her invalid mother. Show the separate assessments.

To make this clear the combined assessment is shown, in addition to the separate assessments.

COMBINED ASSESSMENT

			£ s. d.	£ s. d.
Total Income . .	£2,700			
Tax @ 5s. 6d. . . .				742 10 -
Deductions—				
Earned Income Relief (maximum) . . .	£300			
Personal Allowance (£180 + £45)	225			
Children's Allowance . .	240			
Dependent Relative's Allowance	25			
	790	@ 5s. 6d. =	217 5 -	
Allowance at Reduced Rate .	135	@ 3s. 10d =	25 17 6	
				243 2 6
Tax Payable				£499 7 6

Husband's Assessment

		£	s.	d.	£	s.	d.
Total Income	£2,300						
Tax @ 5s. 6d.. . . .					632	10	-
Deductions—							
Earned Income Relief $\frac{1600}{2000} \times \frac{300}{1}$ =	£240						
Personal Allowance $\frac{2060}{2400} \times \frac{225}{1}$ =	193						
Children's Allowance $\frac{2060}{2400} \times \frac{180}{1}$ =	155						
Adopted Child . . . =	60						
	648 @ 5s. 6d. =	178	4	-			
Allowance at Reduced Rate $\frac{2060}{2400} \times \frac{135}{1}$ =	116 @ 3s. 10d. =	22	4	8			
					200	8	8
Tax Payable by Husband . . .					£432	1	4

Wife's Assessment

		£	s.	d.	£	s.	d.
Total Income	£400						
Tax @ 5s. 6d.					110	-	-
Deductions—							
Earned Income Relief $\frac{400}{2000} \times \frac{300}{1}$ =	£60						
Personal Allowance $\frac{340}{2400} \times \frac{225}{1}$ =	32						
Children's Allowance $\frac{340}{2400} \times \frac{180}{1}$ =	25						
Dependent Relative . . .	25						
	142 @ 5s. 6d. =	39	1	-			
Relief at Reduced Rate $\frac{340}{2400} \times \frac{135}{1}$ =	19 @ 3s. 10d. =	3	12	10			
					42	13	10
Tax Payable by Wife . . .					£67	6	2

Statutory, Assessable, and Taxable Income. These terms have already been explained on page 982, to which reference should be made. An example illustrating them now follows.

Example. Smith has a salary of £500 per annum, and also an annual income of £250 from Investments. He is a married man with three children under the age of 16 years. What amount of tax should he pay?

	£	s.	d.	£	s.	d.
Total Statutory Income (£500 + £250) . .				750	-	-
Deduct Earned Income Relief ($\frac{1}{5}$th of £500) .				100	-	-
Assessable Income . . .				£650	-	-
Deduct Personal Allowance	180	-	-			
,, Allowance for 3 Children . . .	180	-	-			
				360	-	-
Taxable Income . . .				£290	-	-

	£	s.	d.
Tax on £135 at 1s. 8d.	11	5	-
„ £155 at 5s. 6d.	42	12	6
Tax payable	53	17	6
Less Tax on Investments (already deducted at source) £250 at 5s 6d.	68	15	-
Net Tax repayable . . .	£14	17	6

Method of Computing Tax Payable. The above method of computing the amount of tax payable is the one commonly met with in practice; but the strictly legal method (Finance Acts, 1927, etc.) is the one shown on page 992, where the reliefs and allowances are deducted in *terms of tax.* Worked by that method, the above example would appear as under—

		£	s.	d.	£	s.	d.
Total Statutory Income (£500 + £250) . .					750	-	-
Tax on above at 5s. 6d. in the £ . . .					206	5	-
Deductions—	£						
Earned Income Relief . . .	100						
Personal Allowance . . .	180						
Allowance for 3 Children . .	180						
	£460 at 5s. 6d.	126	10	-			
Allowance at reduced rate . .	135 at 3s. 10d	25	17	6			
					152	7	6
Tax payable					53	17	6
Tax on Investments (£250 at 5s. 6d.) . .					68	15	-
Net Tax repayable . . .					£14	17	6

Salary Free of Tax. This has already been explained on page 987, to which reference should be made. An example illustrating it now follows.

Example. Brown is a private secretary, and his remuneration is a salary of £649 10s. per annum *free of tax,* the employer taking the benefit of the allowances. Brown is a married man, and has two children under 16 years of age. What amount should Brown return for assessment assuming tax @ 5s. in the £?

Let £x = statutory income. Then £x - £649 10s. = tax on statutory income. Brown is entitled to an allowance of one-fifth for earned income, an allowance of £180 as a married man, and also an allowance of £120 for his two children. Brown is therefore taxable on $\frac{4}{5}x$ - £180 - £120. £135 of this is taxable at 1s. 8d. in the £, and the remainder at 5s. Therefore—

$$x - 649{\cdot}5 = 5\text{s. } [(\tfrac{4}{5}x - 300) - 135] + 1\text{s. } 8\text{d. } (135).$$

Whence x = £690.

We may also arrive at the assessment in this way—

	£ s. d.	£ s. d.
Let £x = the amount of tax.		
Then Total Statutory Income		649 10 – + x – –
Deduct—		
Earned Income Relief ($\frac{1}{5}$th)	129 18 – + $\frac{1}{5}x$	
Personal Allowance	180 – –	
Allowance for Children	120 – –	
		429 18 – + $\frac{1}{5}x$ – –
Taxable Income		£219 12 – + $\frac{4}{5}x$ – –
Tax on £135 at 1s. 8d.		11 5 –
" £84 12s. + $\frac{4}{5}x$ at 5s.		$\frac{1}{4} \times \frac{4}{5}x$ + 21 3 –
x (Tax payable) . . .		$\frac{1}{5}x$ + 32 8 –

Therefore $5x = x + £162$
$4x = £162$
$x = £40$ 10s.

Assessment = Salary £649 10s. + Tax £40 10s. = £690.

Proof. The result can now be tested to see if the assessment less the tax chargeable on it will, when such tax is deducted, leave the exact amount of the salary paid to the employee.

	£ s. d.	£ s. d.
Total Statutory Income		690 – –
Deduct—		
Earned Income Relief ($\frac{1}{5}$th)	138 – –	
Personal Allowance	180 – –	
Allowance for Children	120 – –	
		438 – –
Taxable Income . . .		£252 – –
Tax on £135 at 1s. 8d.		11 5 –
" £117 at 5s.		29 5 –
Tax payable		£40 10 –

	£ s. d.
Assessment . . .	690 – –
Deduct Tax . . .	40 10 –
Salary	£649 10 –

Life Assurance Premiums. From the amount of tax calculated on the income, an allowance for life assurance premiums may be claimed in respect of premiums paid on the taxpayer's own life and on that of his wife, subject to the following rules—

(*a*) No allowance is made on premiums beyond one-sixth of the total income from all sources.

(*b*) No allowance may be made for premiums on any policy beyond 7 per cent of the sum assured at death, all bonuses, etc., being ignored.

(*c*) If no sum is secured at death the allowance may not exceed tax (at the rate applicable) on £100.

It is further provided that, in the case of assurances or contracts for deferred annuities made after 22nd June, 1916: (1) no allowance whatever can be made unless a capital sum at death is secured, either alone or with other benefits; (2) in the case of policy of deferred assurance no allowance may be made in respect of premiums or payments payable during the period of deferment. It should be noted, however, that policies or contracts in connection with a superannuation fund or bona fide pension scheme are not subject to these two restrictions.

Rates of Allowance for Insurance Premiums—

A. On policies effected before or after 22nd June, 1916	
(1) Where the taxable income does not exceed £135	1s. 8d. in the £
(ii) Where the premiums exceed the amount of income taxed at the full standard rate, the allowance on such excess is . .	1s. 8d. in the £
(iii) All other cases, except (iv) and (v) below .	2s. 9d. in the £
B. On policies effected on or before 22nd June, 1916.	
(iv) Where the total income exceeds £1,000, but does not exceed £2000, . . .	4s. 1½d. in the £
(v) Where the total income exceeds £2,000 .	5s. 6d. in the £

Marginal Relief in Respect of Life Assurance Premiums. To prevent anomalies arising from the fact that, on policies taken out on or before the 22nd June, 1916, the larger the income the greater the allowance for life assurance premiums (2s. 9d., 4s. 1½d., and 5s. 6d. respectively), it was enacted by the Finance Act, 1920, Section 26 (7), subsect. (9), as follows—

Where the tax ultimately payable by any person after deducting the allowance under this section is greater than the amount of tax which would be payable if the total income of that person exceeded £1,000 or £2,000, as the case may be, the allowance under this section shall be increased by a sum representing the amount by which tax at one-fourth of the standard rate on the amount of the premiums or payment in respect of which the allowance is made exceeds the amount of the tax at the standard rate on the amount by which the total income falls short of £1,000 or £2,000, as the case may be.

Example. Jones and Stevens are single men with total unearned incomes of £995 and £1,002 respectively. Each pays a life assurance premium of £150 per annum on a policy taken out prior to 1916. Show their liability for tax, and explain the effect of marginal life assurance relief.

Jones's liability for tax will be—

	£	s.	d.	£	s.	d.
Total Statutory Income				995	-	-
Deduct Personal Allowance				100	-	-
Taxable Income				£895	-	-
Tax on £135 at 1s. 8d.				11	5	-
,, £760 at 5s. 6d.				209	-	-
Total Tax				220	5	-
Deduct Life Assurance Relief— £150 at 2s. 9d				20	12	6
Tax payable before Marginal Relief				199	12	6
Deduct Marginal Relief— £150 at 1s. 4½d.	10	6	3			
Less £5 (£1,000 – £995) at 5s 6d.	1	7	6			
				8	18	9
Tax payable				£190	13	9

Stevens's liability for tax will be—

	£	s.	d.
Total Statutory Income	1,002	-	-
Deduct Personal Allowance	100	-	-
Taxable Income	£902	-	-
Tax on £135 at 1s. 8d.	11	5	-
,, £767 at 5s. 6d.	210	18	6
Total Tax	222	3	6
Deduct Life Assurance Relief— £150 at 4s. 1½d.	30	18	9
Tax payable	£191	4	9

Thus, but for marginal relief, Jones, with an income of £7 less than Stevens, would actually have paid £8 7s. 9d. more tax.

WEAR AND TEAR ALLOWANCE

Wear and Tear of Plant and Machinery. Where Machinery or Plant belongs to the trader, or is so let to him that he is bound to maintain and deliver it over in good condition, an allowance may be claimed for diminished value of the same by reason of wear and tear. Where the lessee of plant and machinery is not responsible for maintenance, no allowance will be made to him. This allowance does not apply to buildings, horses and carts, tools, implements and utensils, though, in the latter cases, the cost of replacement is allowed as a deduction before ascertaining the statutory profits. The allowance is calculated on the value of the Plant and Machinery at the commencement of the year; no allowance

is made for additions made during the year. The allowance will only be made where renewals have been charged to capital and repairs to revenue; if renewals have been charged to revenue, the trader must forgo the allowance. In some cases, the trader may derive more benefit by waiving the claim for wear and tear, in return for being allowed to charge against the profits all repairs, renewals, and replacements of Plant and Machinery. Where machinery has been replaced in consequence of obsolescence, the loss on the sale of the same may be claimed as a deduction before ascertaining the assessable profits.

Where, as is usually the case, the allowance is an agreed percentage on the diminishing value of plant and machinery, the diminishing value for this purpose is the capital value less the allowances made from time to time, irrespective of the amount written off in the books for depreciation. The student should note the more restricted meaning of "Wear and Tear." The amount claimed for "Wear and Tear" should be entered on the return form. The following rules[1] relating to the total amount that may be claimed, and to the carrying forward of the allowance from year to year in certain cases, should be carefully studied.

No deduction for wear and tear or repayment on account of any such deduction shall be allowed for any year if the deduction, when added to the deductions allowed on that account for any previous years to the person by whom the trade is carried on, will make the aggregate amount of the deductions exceed the actual cost to that person of the machinery or plant, including in that actual cost any expenditure in the nature of capital expenditure on the machinery or plant by way of renewal, improvement, or reinstatement.

Where full effect cannot be given to any such deduction in any year owing to there being no profits or gains chargeable for that year, or owing to the profits or gains chargeable being less than the deduction, the deduction or part of the deduction to which effect has not been given, as the case may be, shall, for the purpose of making the assessment for the following year, be added to the amount of the deduction for wear and tear for that year and deemed to be part of that deduction, or if there is no such deduction for that year, be deemed to be the deduction for that year, and so on for succeeding years.

For example, suppose the profits of a firm, as agreed with the inspector, to be £2,000, and that the claim for wear and tear, as also allowed by the inspector, to amount to £2,300, then £300 will be the balance to carry forward as an addition to the amount subsequently to be allowed as a deduction from future assessable profits.

The Income Tax Act, 1918, authorizes application to a Board of Referees by any *class* of trade which is dissatisfied with the rate of depreciation allowed. The Board consists of professional and business men, who may now grant any rate of allowance for depreciation of plant and machinery which they consider just.

[1] Income Tax Act, 1918, Schedule D, Cases I and II, Rule 6 (6) and Rule 6 (3).

" Wear and Tear " allowance may now[1] be claimed by professional persons, and persons occupying lands where the profits of such occupations are assessable according to the Rules of Schedule D. Employees, assessable under Schedule E, may also claim the allowance.

EXEMPTION

Exemption. The following are exempt from assessment for income tax—

(1) The Crown.

(2) Certain *Buildings* under Sch. A, such as public schools university halls and colleges, hospitals, almshouses, literary and scientific institutions.

(3) Registered Friendly Societies and Trade Unions.

(4) Trustee Savings Banks.

(5) Colleges, Universities, Scientific Institutions.

(6) Charitable Institutions (in so far as their income from rents, interest, and dividends and profit from trading is applied to charitable purposes).

(7) Funds held by Insurance Committees, Approved Societies, and the Government Departments concerned, for the purposes of the National Health Insurance Act, 1924.

If any income is received *less* tax, repayment of the tax can be claimed in the above cases.

Wounds, disablement, and disability pensions, and allowances for children granted by the Ministry of Pensions to the widows of ex-service men, are exempt, and should not be included in the return form.

The interest on National Savings Certificates is exempt from income tax, so long as the owner does not hold in his (or her) own name more than 500, the maximum authorized by the Treasury.

SUR-TAX

Rates of Tax. Sur-tax is additional income tax, charged on incomes exceeding 2,000 according to the scale on the following page.

Mode of Assessment. Sur-tax is assessed and charged by the Special Commissioners. It is regarded as an instalment of income tax due and payable on the 1st January following the end of the year of assessment to which it relates. The same rights of appeal and recovery of duty apply to sur-tax as to the other portions of the income tax. The sur-tax assessment for each year is based on

[1] Finance Act, 1925, Section 16.

Part of Income	i.e. *part between*	*Rate* s. d.
1st £2,000 of income . .	£0 and £2,000	Nil
1st £500 above £2,000 .	£2,001 and £2,500	1 -
2nd £500 above £2,000 .	£2,501 and £3,000	1 6
£1,000 above £3,000 .	£3,001 and £4,000	2 -
£1,000 above £4,000 .	£4,001 and £5,000	3 -
£1,000 above £5,000 .	£5,001 and £6,000	3 6
£2,000 above £6,000 .	£6,001 and £8,000	4 -
£2,000 above £8,000 .	£8,001 and £10,000	5 -
£5,000 above £10,000 .	£10,001 and £15,000	5 6
£5,000 above £15,000 .	£15,001 and £20,000	6 -
£10,000 above £20,000 .	£20,001 and £30,000	6 6
£20,000 above £30,000 .	£30,001 and £50,000	7 -
All above £50,000 . . .	£50,001 and upwards	7 6

For 1931–32 to 1938–39 inclusive the above rates are increased by 10 per cent.

the total income from all sources for the year of assessment. Sur-tax is payable only in respect of individuals.

Limited Companies. If the Commissioners consider that any limited company has not, within a reasonable time after the end of any accounting period, distributed a reasonable portion of its profits, they may treat the undistributed profits as having been received by the members of the company.

The directors of a company may make a statutory declaration to the effect that in their opinion there has not been and will not be any avoidance of sur-tax through failure to distribute a reasonable part of the income. Unless they see reason to the contrary, the Commissioners will then take no further action in the matter.

The provisions relating to the assessment of sur-tax in the case of companies apply only to companies which are under the control of not more than five persons, and which are not subsidiary companies or companies in which the public are substantially interested. A company is deemed to be under the control of any persons where the majority of the voting power is in the hands of those persons or their nominees. A company in which the public is substantially interested is one in which shares (not being shares entitled to a fixed rate of dividend) with at least 25 per cent of the voting power are held by the public, and such shares have been the subject of dealings on a Stock Exchange in the United Kingdom, during the period concerned, and have been quoted in the official list.

ADJUSTMENT OF ACCOUNTS FOR ASSESSMENT

Two Methods in Use. There are two methods of ascertaining the amount of profit assessable for income tax purposes—

(1) To take the net profit shown by the Profit and Loss Account, *add* back all those deductions which are not allowed by the Income Tax Authorities, and *deduct* such items as are not taxable or have already been taxed.

(2) To take the gross profit shown by the Trading Account and construct a new Profit and Loss Account, including only such profits as are taxable, and only those losses and expenses which are allowed by the Revenue Authorities to be deducted. If this procedure is adopted it must be borne in mind that the Trading Account itself may contain inadmissible items, e.g. royalties, and adjustments therefor must not be overlooked.

The student should accustom himself to both methods, although Method (2) is rarely operative except in cases where the book-keeping is defective.

Examples. The following is the Profit and Loss Account of Robert Reynolds, manufacturer, for the year ending 31st Dec.—

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

		£	s.	d.		£	s.	d.
To Bank Interest and Charges		20	–	–	By Gross Profit as per Trading A/c	2,368	–	–
„ Subscriptions and Donations to Charities		15	–	–	„ Discounts Received	85	–	–
„ Trade Expenses		128	–	–	„ Profit on Sale of Investments	45	–	–
„ Income Tax, Sch. A @ 5/6		55	–	–	„ Dividends, *less tax*	24	–	–
„ Income Tax, Sch. D		74	–	–				
„ Salaries		426	–	–				
„ Discounts Allowed		120	–	–				
„ Proprietor's Salary		260	–	–				
„ Repairs		32	–	–				
„ Bad Debts		87	–	–				
„ Bad Debts Reserve	£180							
Less Old Reserve	140							
		40	–	–				
„ Fire Insurance		18	–	–				
„ Office Expenses		37	–	–				
„ Loss by Cashier's Embezzlement (not covered by insurance)		60	–	–				
„ Depreciation—								
Lease		80	–	–				
Goodwill		35	–	–				
Plant and Machinery		46	–	–				
„ Interest on Loan		24	–	–				
„ Interest on Capital		120	–	–				
„ Ground Rent		25	–	–				
„ Balance (Net Profit)		820	–	–				
		£2,522	–	–		£2,522	–	–

The inspector agrees to an allowance of £25 for wear and tear of plant and machinery, and is prepared to admit as an expense £10 subscription to a local hospital at which employees receive treatment. R. R. claims £23 for life assurance premium. The net assessment under Schedule A is £200. Make up R. Reynolds' return for assessment for the current year.

First Method—

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Deduction of Items—				By Net Profit as per Profit and Loss Account	820	–	–
[1] Full Annual Value of Premises:	244	–	–	„ Deductions not allowed, added back—			
Dividends (taxed)	24	–	–	Subscriptions and Donations	5	–	–
Profit on Sale of Investments	45	–	–	Income Tax	129	–	–
Balance (Assessable Profit)	1,271	–	–	Proprietor's Salary	260	–	–
				Bad Debts Reserve	40	–	–
				Depreciation	161	–	–
				Interest on Loan	24	–	–
				Interest on Capital	120	–	–
				Ground Rent	25	–	–
	£1,584	–	–		£1,584	–	–

Second Method—

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Bank Interest and Charges	20	–	–	By Gross Profit as per Trading Account	2,368	–	–
„ Subscription to Hospital	10	–	–	„ Discounts Received	85	–	–
„ Trade Expenses	128	–	–				
„ Salaries	426	–	–				
„ Discounts Allowed	120	–	–				
„ Repairs	32	–	–				
„ Bad Debts	87	–	–				
„ Fire Insurance	18	–	–				
„ Office Expenses	37	–	–				
„ Cashier's Embezzlement	60	–	–				
„ Full Annual Value of Premises	244	–	–				
„ Balance (Assessable profit)	1,271	–	–				
	£2,453	–	–		£2,453	–	–

The profit for current year's assessment is—

	£1,271
Deduct claim for Wear and Tear	25
	£1,246

Tax at the full standard rate of 5s. 6d. in the £ will be chargeable on £1,246. Tax at the full rate will be allowed in respect of one-fifth of £1,246 (earned income) and of the personal allowances; also at 3s. 10d. upon £135 of the income. A deduction will then be made at 2s. 9d. in the £ in respect of the insurance premium of £23. It is assumed the policy was taken out after 22nd June, 1916.

[1] See page 990.

Example 2. The trading results of the A B C Co., Ltd., for the preceding year, as shown by their books, are: Profit £6,842. Before arriving at these figures, the following items have been charged or credited in the accounts—

	£
Pension to late Secretary	180
Directors' Fees	400
Rent of Trade Premises	360
Royalties paid	35
Dividends received	133
Depreciation of Plant and Machinery	240
Amount written off Goodwill	260
Transfer to Reserve	300
Debenture Interest	420
Sinking Fund to repay Debentures	150
Income Tax, Schedule D	270
Bank Interest	20
Transfer Fees received	45

The inspector makes an allowance of £120 for wear and tear of plant and machinery. Make up the Company's Return for Assessment.

INCOME TAX RETURN

	£
Profits as per Profit and Loss A/c.	6,842
Loss as per Profit and Loss A/c	
Add deductions not allowed—	
Royalties paid	35
Depreciation of Plant and Machinery	240
Amount written off Goodwill	260
Transfer to Reserve	300
Debenture Interest	420
Sinking Fund instalment	150
Income Tax, Sch. D	270
	8,517
Deduct Dividends (already taxed)	133
Adjusted Profits	£8,384

Profit for current year's assessment	£8,384
Deduct Claim for Wear and Tear =	120
Assessment =	£8,264

at the standard rate, the concern being a limited company.

Note. Bank interest is usually collected by the bank by means of a debit in the customer's account. Tax is not deducted and the amount may, therefore, be claimed as a deduction in the Profit and Loss Account.

Example 3. The assessable profits of Thomas Lupin for income tax purposes for the preceding year ending 30th April, 19.., were £6,275, after adding back £100 Annual Interest on a loan. He occupies his own business premises, assessed at £244 gross. He owns house property, the rents of which amount to £512, assessed under Sch. A at £410 net. He receives £250 per annum for directors' fees. His wife has a private income of £725 p.a. free of tax from Investments. He and his wife are insured with a British and also with a New York Life Assurance Co. (London Branch), the annual premium being respectively £200 paid by him and £100 paid by his wife. Compute T. Lupin's liability for tax and sur-tax for the current year.

The business profit returnable for the current year must be the profit of the preceding year ending either on 5th April or prior to 5th April. It will, therefore, be £6,275.

TOTAL INCOME FOR INCOME TAX PURPOSES

	£	s.	d.
Business Profits	6,275	-	-
Annual Value of Business Premises (£244 less £44 repairs allowance—see p. 983)	200	-	-
Rents of House Property (Sch. A Assessment) . .	410	-	-
Directors' Fees	250	-	-
Wife's Income from Investments (£725 + £275 for tax at 5s. 6d.)	1,000	-	-
Total Statutory Income .	£8,135	-	-

Of this amount, £1,410 has been taxed at source, and tax on the balance (£6,725) will be charged on T. Lupin at the full standard rate, subject to the following deductions—

Maximum Earned Income Relief. .	Tax @ 5s. 6d. on £300
Personal Allowance	Tax @ 5s. 6d. on £180
Allowance at Reduced Rate . .	Tax @ 3s. 10d. on £135
Insurance Premiums (if allowable) @ 5s. 6d. in the £, provided the policies were taken out on or before 22nd June, 1916.	

As already stated, sur-tax is based on the statutory income for the year of assessment. But since the taxpayer is entitled to deduct from annual interest and other annual payments, tax at the standard rate only, the amount of such annual payments is allowed as a deduction for sur-tax purposes.

TOTAL INCOME FOR SUR-TAX PURPOSES

	£	s.	d.
Total Statutory Income as above .	8,135	-	-
Less Charges	100	-	-
Total Income for Sur-tax . .	£8,035	-	-

CALCULATION OF SUR-TAX PAYABLE

			£	s.	d.
First	£2,000	. . . . . .	Nil		
Next	£500 @ 1s.	. . . . .	25	–	–
„	£500 @ 1s. 3d.	. . . .	31	5	–
„	£1,000 @ 2s.	. . . . .	100	–	–
„	£1,000 @ 3s.	. . . . .	150	–	–
„	£1,000 @ 3s. 6d.	. . . .	175	–	–
„	£2,000 @ 4s.	. . . . .	400	–	–
„	£35 @ 5s.	. . . . .	8	15	–
	£8,035		£890	–	–
		Add 10% . .	89	–	–
			£979	–	–

Interest on Loans and on Debentures. Where a trader has deducted tax at the standard rate on any Interest on Loans, and is chargeable on his business profits at any lower rate, he must account to the Income Tax Authorities for the difference in tax on such interest; that is, he will not, in his capacity as collector for the Revenue Authorities, be allowed to make any gain therefrom. Again, if in any year he makes a statutory loss, he must still account for tax deducted on any interest. Likewise, a joint stock company would be assessed on its debenture interest, even though for the year of assessment it had made a statutory loss.

PARTNERSHIPS

Partners and Income Tax. The assessment is made on the firm. The allowances to which the partners may be individually entitled will be made on the firm's assessment.

The income of a partner from the partnership for the year to which the claim for individual allowances relates shall be deemed to be the share in the partnership profits to which he is entitled during the year of assessment, such profits being estimated in accordance with the Income Tax Acts.

The partner makes a separate Return for the purpose of claiming allowances or earned income relief.

Example 1. Jones, Barron, and Kerry are in partnership sharing profits and losses equally. Jones receives a salary of £500, Barron £400, and Kerry £300 per annum. The capitals of the partners are—Jones £5,000, Barron £4,000, Kerry £3,000; and by the partnership deed each of the partners is entitled to interest on his capital at 5 per cent per annum. The firm's assessable profits for the previous year, as agreed with the inspector, were £8,253. The partners have no other source of income. Draw up a statement showing how the tax payable by the firm should be allocated among the partners. What difference would it make if the charge for income tax was merely debited to the Rates and Taxes Account as an ordinary business expense?

The allocation as between the partners is—

STATEMENT ALLOCATING ASSESSABLE PROFIT BETWEEN PARTNERS

	Total	Jones	Barron	Kerry
	£	£	£	£
Interest on Capital . . .	600	250	200	150
Partnership Salaries . . .	1,200	500	400	300
Share of Assessable Profit divisible as Profits and Losses . . .	6,453	2,151	2,151	2,151
	£8,253	£2,901	£2,751	£2,601

from which each partner would claim the allowances to which he is entitled.

When the tax is paid, the best method of dealing with it is to charge each partner's share direct from the Cash Book to his Drawing Account. If the tax is debited to the Profit and Loss Account and borne in the same ratio as general profits and losses, the result in the present case would be that each partner would thus bear one-third of the tax; Jones would be undertaxed, Barron would be properly taxed, and Kerry would be overtaxed; or, in other words, Kerry would be bearing a portion of the tax on Jones's profits.

Example 2. Scott, Russell, and Smith are partners in a business and share profits and losses four-ninths, three-ninths, and two-ninths respectively. Their capitals are: Scott £7,000, Russell £6,000, Smith £4,000. The partners draw salaries as follows: Scott £450 p.a., Russell £350 p.a., and Smith £200 p.a. They are also entitled to interest on their capitals at the rate of 5 per cent per annum. Scott has a private income from house property assessed under Sch. A at £300 net. Russell has one child under 16 at the commencement of the year of assessment, and pays a life assurance premium of £55 per annum. His wife has an income of £200 gross from Investments. Smith pays an annual life assurance premium of £30. The assessable business profits, as agreed with the inspector, were £4,469. Make up the firm's Return for assessment, and show the allocation of the tax among the partners.

The firm's assessment will, therefore, be £4,469 *less* the allowances to be made to the partners individually.

STATEMENT ALLOCATING ASSESSABLE PROFIT BETWEEN PARTNERS

	Total	Scott	Russell	Smith
	£	£	£	£
Interest on Partners' Capital . .	850	350	300	200
Partnership Salaries . . .	1,000	450	350	200
Share of Assessable Profit divisible in same ratio as profits and losses .	2,619	1,164	873	582
	£4,469	£1,964	£1,523	£982

Scott's total income is £1,964 plus £300 (already taxed), viz. £2,264. He will claim earned income relief on £300, and the personal allowance.

Russell's total income is £1,523 plus his wife's income £200 (already taxed), viz. £1,723. His allowances will be, earned income relief, £300; personal allowance, £180; allowance for child, £60; insurance premiums on his own life, viz. £55.

Smith's total income is £982. Of this, £196 will be allowed as earned income relief. Smith will also claim the personal allowance, and the allowance for insurance premiums.

The firm's assessment will thus be—

			£4,469
Less Allowances—			
Earned Income Relief:			
Scott (maximum) .	£300		
Russell " .	300		
Smith (one-fifth) .	196		
		£796	
Personal Allowance:			
Scott (say) . .	£100		
Russell . . .	180		
Smith (say) . .	100		
		£380	
Child's Allowance:			
Russell		£60	
			1,236
			£3,233

Tax would be chargeable at 5s. 6d. in the £ upon £4,469. Tax would be allowed at 5s. 6d. in the £ upon £1,236, and at 3s. 10d. in the £ upon £405. From this amount would be deducted—

Insurance Premiums—

Russell	£55 @	(say) 4s. 1½d.
Smith	30 @	2s. 9d.

Partners and Sur-tax. The following illustration, adapted from a circular issued by the Clerk to the Special Commissioners, should also be carefully studied—

A firm consisting of three members (A, B, and C) might have—

	£	£
Partnership profits as assessed for the year 1932–33 (say)		20,000
Partnership income receivable in the year from (*a*) Dividends upon Investments; (*b*) Interest; (*c*) Rents; (*d*) Annual Value of Premises; and (*e*) any other sources of taxed income (say)		
Dividends upon Investments	2,500	
Interest upon Loans	2,500	
Rents	2,500	
Annual Value of Premises owned and occupied by firm—i.e. the net Income Tax Assessment (Sch. A)	2,500	
		10,000
Total income for Income Tax purposes .		30,000
If the firm made any payments to third persons in respect of, for instance, (*a*) Ground Rents, (*b*) Annual Interest on Mortgage or other loans to the firm, (*c*) Annuities payable out of profits, these should be claimed as deductions from the above, as follows (say)—		
Ground Rents	1,000	
Annual Interest	1,000	
Annuities payable out of Profits	1,000	
		3,000
Leaving . . .		£27,000

which represents the sum which for Sur-tax purposes is to be treated as divisible among the partners in the firm.

Supposing, therefore, that for the year 1932–33, under the Deed of Partnership, partner B is entitled to a salary of £1,000 as a first charge in the partnership profits, and that the capital of the firm, amounting for that year to (say) £60,000, held equally by the partners, is next directed to be credited with interest at 5 per cent per annum, and that the balance of the profits is divisible in the proportion of: A, five-tenths; B, three-tenths; C, two-tenths; then the income from the partnership of each member of the firm for Sur-tax purposes for the year 1932–33[1] would be as follows—

	£	£
Partnership income for Sur-tax purposes, as shown above		27,000
Less—		
Managing Partner's Salary	1,000	
Interest on Partner's Capital (£60,000 at 5%) .	3,000	
		4,000
Amount proportionally divisible among the partners .		£23,000

A	£	B	£	C	£
Interest on capital	1,000	Interest on capital	1,000	Interest on capital	1,000
Five-tenths profits	=11,500	Three-tenths profits	=6,900	Two-tenths profits	=4,600
		Salary . . .	1,000		
	12,500		8,900		5,600

£27,000

[1] Sur-tax for 1932-33 is payable on 1st January, 1934, at the rates of tax in force for the year 1933-34.

. These sums of £12,500, £8,900, and £5,600 represent the amounts such partners A, B, and C respectively are for Sur-tax purposes to be considered to have derived from this business, and should be entered by them in their several returns.

Partners who have borrowed, on their personal security, money which they put into the business must not treat the interest they pay thereon as a deduction in arriving at their shares of the *Partnership* profits, in space No. 1 (*a*) of the Form of Return, but such interest should be claimed as a deduction in space No. 2.

SPECIAL CLAIMS AND ALLOWANCES

Setting off Losses of one Business against the Profits of Another. By the Income Tax Act, it is provided that where a person carries on, either solely or in partnership, two or more distinct trades, manufactures, adventures, or concerns in the nature of trade, the profits of which are chargeable under the rules of Schedule D, he may deduct or set off against the profits gained in one or more of the said concerns the excess of the loss sustained, in any other of the said concerns, over and above the profits thereof.

Example. H. Humphrey is in partnership as a general hardware dealer, and his share of the statutory profits, as agreed with the surveyor, amounts to £1,057. He is also engaged in business as a grain merchant; from this source he sustains a loss, the statutory amount of which is agreed with the inspector at £740. In addition, he has a private income from Investments of £145 net. Make up his claim for relief under the above-mentioned Act.

RETURN OF TOTAL INCOME FROM ALL SOURCES

		£	s.	d.
Business Profit as Hardware Merchant . .	£1,057			
Less Business Loss as Grain Merchant . .	740			
		317	–	–
Private Income from Investments, gross (say) . . .		200	–	–
Total Statutory Income . .		£517	–	–

Business Loss in Year of Assessment. By Section 34 of the Income Tax Act, 1918, as amended, it is provided as follows—

1. Where any person sustains a Loss in any Trade, Profession, Employment, or Vocation carried on by him either solely or in partnership, or in the Occupation of Lands for the purpose of Husbandry only, or in the occupation of woodlands in respect of which he has elected to be charged to tax under Schedule D, he may, upon giving notice in writing to the Surveyor of Taxes for the district, within one year after the year of assessment, apply to the general commissioners or to the special commissioners for an adjustment of his liability by reference to the loss and to the aggregate amount of his income for that year estimated according to this Act.

2. The commissioners shall, on proof to their satisfaction of the amount of the loss, and of the payment of tax upon the aggregate amount of income,

give a Certificate authorizing repayment of so much of the sum paid for tax as would represent the tax upon income equal to the amount of loss, and the certificate may extend to give exemption, abatement, or relief, depending upon total income from all sources. Upon the receipt of the Certificate, the Commissioners of Inland Revenue shall cause repayment to be made in conformity therewith.

3. If any person shall be guilty of any fraud or contrivance in making any application under this section, or in obtaining any such adjustment or Certificate as aforesaid, he shall forfeit the sum of Fifty Pounds.

4. Where repayment has been made to a person for any year under this section, he shall not be entitled, in computing the assessment for any subsequent year, to a deduction of any portion of the amount in respect of which such repayment has been obtained.

When making a claim under this Act, the trader must forward with the official form a copy of his Trading and Profit and Loss Account for the particular year in question. This section of the Act applies only to an actual "statutory" loss; no claim can be made hereunder simply by reason of "diminishing profits." The advantage derived from a successful claim under this Act is, however, largely counterbalanced by the fact that such loss is not permitted to be set against future profits.

For example, suppose the adjusted results for four years were: (1) profit £1,800, (2) loss £1,000, (3) profit £800, (4) profit £1,200, the assessments would be—

	(a) *If Claim is made and is allowed*		(b) *If no Claim is made*
	£		£
(2) £1,800–£1,000	800	(2)	1,800
(3)	Nil	(3) (£1,000 loss carried forward)	Nil
(4)	800	(4) £800–£800 (part of loss)	Nil
(5)	1,200	(5) £1,200–£200 (balance of loss)	1,000
	£2,800		£2,800

It is assumed that tax has been paid on £1,800 and repaid on £1,000.

Repayment of tax can be claimed only to the extent of the income on which it has been paid. Thus, if the statutory loss amounts to £650, and tax has been paid only on £520, then tax can be recovered only on £520. The balance of £130 will be set against future assessments for the following five years.

Carrying Forward Losses. Instead of claiming relief by (i) setting off the loss against the profits of another business, or (ii) claiming repayment under Section 34 of the Income Tax Act, 1918, the taxpayer may (iii) elect to carry forward the loss as a set-off against the profits on which he is assessed for the six following years of assessment.[1] And where the loss is not fully covered by methods (i) and (ii) the balance may be carried forward under (iii).

[1] Finance Act, 1926, Section 33.

New Business. (First Year.) The first year's assessment is based upon a proportion of the profits in the first year or accounting period.

(Second Year.) The Finance Act, 1926, provides that (*a*) where the trade, profession, or vocation has been set up and commenced within the year preceding the year of assessment, the computation shall be made on the profits or gains for one year from the period of the first setting up of the same; and (*b*) the person charged shall be entitled, on giving notice in writing to the surveyor, within twelve months after the end of the year of assessment, to be charged to income tax on the amount of the profits or gains of the year of assessment.

The Finance Act, 1930 (Sect. 15), introduced an extension of this principle, so that where a business has been set up on or after 6th April, 1928, the taxpayer may, by notice, claim to be assessed for the second and third years on the actual profits of those years. The election to be so assessed must be made in respect of *both* the second and third years; and where this basis would be unfavourable to the taxpayer he may revoke any notice previously given, whereupon the assessments will follow the normal method, i.e. the second year's assessment will be based upon the profits of the first twelve months as stated at (*a*) in the preceding paragraph, and the third year's assessment will be based upon the profits of the preceding year.

Example. Business commenced 1st October, 19—. Profits for the first three accounting periods ending 30th September, £800, £600, and £1,300 respectively.

Years of Assessment	Normal Assessment		Actual Profits
	£		£
First . . .	400	(£800 × ½)	400
Second . .	800	(£800 × ½ + £600 × ½)	700
Third . . .	800	(£600 × ½ + £1300 × ½)	950

The taxpayer may elect to have the assessment for the second year reduced to the actual profits, i.e. £700. In this case the assessment for the third year will also be on the actual profits, i.e. £950. If this basis proves on the whole unfavourable to the taxpayer he may, within twelve months after the end of the third year, revoke the notice previously given, when the normal assessments will apply. (The student is warned against assuming from the above figures that the normal assessment will favour the taxpayer in this case; the whole of the circumstances including rates of tax in force for the various years, other income, " allowances " available, and liability to sur-tax will have to be carefully reviewed.)

Discontinuance of Business. The Finance Act, 1926, provides that where in any year of assessment a trade, profession or vocation is permanently discontinued the assessment shall be

adjusted to the actual profits of such year commencing 6th April. Any tax overpaid may be reclaimed, but an additional assessment may be made if the actual profits exceed the assessed profits of such period. If, during the year of assessment preceding the year of discontinuance, the actual profits exceed the assessed profits of such period an additional assessment will be made, but no tax may be reclaimed if the assessed profits exceed the actual profits of such period.

Example. A business, whose trading year is 6th April to 5th April, is closed down at 30th September, 1933.

Actual profits	Assessment	Adjusted Assessment
1930–31—£700		
1931–32—Nil	£700	
1932–33—£500	Nil	£500
1933–34—£200	£500	£200

If the actual profits of 1931–32 had been £600 (this then constituting the assessment figure for 1932–33) tax could not be reclaimed on £100 (£600–£500).

Where the dates of the trading year do not coincide with those of the official financial year, apportionment must be made. The actual profits for the year of assessment in which discontinuance takes place, also the actual profits for the year of assessment preceding the year of discontinuance, will be the apportioned profits from the 6th of April in one year to the 5th of April in the following year (*Manson* v. *Wesley*, 1931).

Example 2. A business whose trading year is 1st January to 31st December is closed down on 28th February, 1934. Its adjusted taxable profits are as follows—

Year ended 31st December, 1930 . . .	£1,600
,, ,, 1931 . . .	1,100
,, ,, 1932 . . .	1,700
,, ,, 1933 . . .	840
Period ended 28th February, 1934 . . .	120

On what profits will this business be assessed if it makes a claim for adjustment on account of discontinuance of business?

	Ordinary Assessment		Adjusted Assessment
1931–32 .	Previous year's profits,	£1,600	—
1932–33 .	,, ,,	1,100	£1,485
1933–34 .	,, ,,	1,700	£750

The actual profits for 1933–34, the year in which discontinuance takes place, are the profits from 6th April, 1933, to 28th February, 1934, namely, nine-twelfths of £840 plus £120; that is, £630 + £120, or £750.

The actual profits for the year of assessment preceding the year of discontinuance are the profits for the fiscal year—6th April, 1932,

to 5th April, 1933—made up of the trading periods 6th April, 1932, to 31st December, 1932 (nine months), and 1st January, 1933, to 5th April, 1933 (three months). The profits will, therefore, be nine-twelfths of £1,700 plus three-twelfths of £840; that is, £1,275 + £210, or £1,485.

Consequently, the assessment for 1932–33 will, by means of an additional assessment of £385, be raised to £1,485; but, on the other hand, the assessment for 1933–34 will be reduced to £750.

Change of Succession. By the Finance Acts, 1926 and 1930, when a change occurs in a partnership, by reason of retirement or death, or dissolution of the partnership as to one or more of the partners, or the admission of a new partner, within the period of assessment, the profits and gains are to be computed in the same manner as before, provided that any member of the new partnership had a share in the business before the change took place. If, however, *all* the persons who had a share in the business before and after the change make application to the inspector of taxes within twelve months of the change, the business may be treated as a new one and the old partnership as a discontinued business. Where *no* member of the new partnership had a share in the old partnership, the business is treated as a new one.

When two or more businesses are amalgamated, the profits of the businesses will be added together, and will form the basis for ascertaining the new assessment.

When a private firm is converted into a limited company, the profits of the latter will be computed and ascertained on the basis of a new business.

SHARE OR PAPER PROFITS

Method of Assessment. Joint Stock Companies occasionally make "paper" profits, which are commonly converted into fully-paid shares. In such cases, the assessment of such profits for income tax is made as follows—

(*a*) If the shares are distributed, they must be valued at the market price, or at a price to be agreed with the local commissioners. Tax is then payable on this value.

(*b*) If the shares are not distributed but held by the company, the assessment may remain in abeyance for three years, the company to account for any sold during this time. At the end of this period the shares will be valued, and tax is then payable on such value.

Profits made by promoters are sometimes issued in the form of fully-paid shares. These are treated in the same way as above. Tax is payable on the assessed value, less any expenses necessarily incurred by the party receiving them, i.e. in the case of the promoter, the cost of issuing the prospectus, registration fees, etc., if borne by him.

REPAYMENT

Statutory Provisions. The following is a brief summary of the cases in which income tax already paid can be recovered by means of a claim for repayment—

(1) Where an individual is entitled to claim exemptions and the whole or any part of his income has been received less tax.

(2) Where earned income relief and/or personal allowance have not been granted.

(3) Where a person is liable to pay tax at a lower rate only and his income or any part of it has been received less tax at a higher rate.

(4) Where a person is entitled to an allowance (*a*) for life assurance premiums; (*b*) for children under 16 years of age.

(5) Where a lessor of plant and machinery is entitled to an allowance for wear and tear.

(6) In the case of charitable institutions, public schools, literary and scientific institutions, etc., entitled to exemption.

(7) In cases of double assessment, i.e. where a person has paid tax twice for the same year on the same income.

(8) Where the actual profits from working a farm amount to less than the statutory assessment, repayment of tax can be claimed on the difference. (Schedule B only.)

(9) In the case of an additional allowance in respect of maintenance of lands and buildings under Schedule A.

(10) Where a business has been set up within two years, or during the year of assessment.

(11) Where the business has been discontinued.

(12) Where a loss has been sustained.

(13) Where interest has been paid to a bank in full without deduction of tax, and such interest has not been treated or allowed as a business expense.

Repayment claims may now be made half-yearly. Formerly the claim could only be made at the end of a year.

Dominion Income Tax Relief. On income which is chargeable both to British Income and Dominion Income Tax, relief is given by the British authorities at a rate determined as follows—

(*a*) If the Dominion rate does not exceed *half* the appropriate British rate, the relief given is the Dominion rate.

(*b*) In any other case, the relief is *one-half* the appropriate British rate.

(*Finance Act*, 1920.)

The expression "Dominion" includes the self-governing Dominions, India, all British possessions, protectorates, and mandated territories. As regards the Irish Free State, an agreement has been concluded between the British Government and Irish Free State Government granting reciprocal exemption from income tax and sur-tax to persons resident in either or both of these two countries.

For the purpose of claiming relief, the "appropriate rate" is the average rate of income tax payable by an individual on his taxable income before the life assurance allowance is made. If sur-tax is payable, the "appropriate rate" is the average rate of income tax as above, plus the average rate of sur-tax on the total income for sur-tax purposes.

Example 1.

	£	£
Total income of a married man with one child . .		1,275
Deduct personal allowance	180	
„ child's allowance	60	
		240
Taxable Income .		£1,035

	£ s. d.	£ s. d.
Tax Chargeable—		
£1,275 @ 5s. 6d. . .		350 12 6
Allowances—		
£240 @ 5s. 6d. . . .	66 – –	
£135 @ 3s. 10d. . .	25 17 6	
		91 17 6
		£258 15 –

$$\text{Appropriate Rate} = \frac{£258{\cdot}75}{1035} = 5\text{s.}$$

Assuming that part of the income has been subjected to Dominion taxation as well as British taxation, relief may be claimed on the income doubly taxed up to a maximum of 2s. 6d. in the £.

Example 2. Smith has a salary of £2,000, and also an annual income from investments of £2,765 gross. He is a married man with two children under 16 years of age, and maintains a dependent relative.

	£ s. d.	£ s. d.
Total Statutory Income (£2,000 + £2,765) .		4,765 – –
Deductions—		
Earned Income Relief (maximum) . .	300 – –	
Personal Allowance	180 – –	
Allowance for 2 Children (£60 + £60) .	120 – –	
„ „ dependent relative	25 – –	
		625 – –
Taxable Income . . .		£4,140 – –
Tax on £135 at 1s. 8d. in the £ . . .		11 5 –
„ £4,005 at 5s. 6d. in the £. . .		1101 7 6
Total Tax		£1112 12 6
Total Income for Sur-tax (assumed income for preceding year)		£4,765 – –
Tax on first £2,000		*nil*
„ next £500 at 1s. in the £ . .		25 – –
„ „ £500 at 1s. 3d. in the £ . .		31 5 –
„ „ £1,000 at 2s. in the £ . .		100 – –
„ „ £765 at 3s. in the £ . .		114 15 –
		271 – –
Add 10 per cent . . .		27 2 –
Sur-tax payable . .		£298 2 –

			£ s. d.
Appropriate Income Tax rate	$= \frac{£1,112\ 12\ 6}{4140}$	=	5 4½
Sur-tax Rate	$= \frac{£298\ 2s.}{4765}$	=	1 3
Appropriate Rate			6 7½

If Dominion income tax rate is greater than the British rate, relief may be claimed at half the above rate, namely, 3s. 3¾d. in the £ on all income doubly taxed.

FOREIGN INCOME

Foreign income is income which arises outside of Great Britain, Northern Ireland, and the Dominions.

Persons resident in Great Britain are assessable on the full amount of income derived from any source outside of this country, whether it is actually remitted to this country or not.

Foreign income—unless remitted to this country—is not assessable in the following cases—

(*a*) Where the owner is not domiciled in the United Kingdom.

(*b*) Where the owner—a British subject—is not ordinarily a resident in the United Kingdom.

(*c*) In the case of foreign possessions other than stocks, shares, or rents.

Liability for Assessment.

(I) Residents in the United Kingdom are assessable on—

(*a*) All income arising in this country;

(*b*) All profits derivable from foreign income (see regulations above).

(II) Persons not residing in the United Kingdom are assessable on all profits arising in this country; but are exempt from liability in respect of profits accruing abroad.

Note. Non-residents are not chargeable on income from the following investments—

(*a*) Discount on Treasury Bills issued on or before 31st August, 1922.

(*b*) Interest on 3½ per cent War Stock.

(*c*) Post Office issues of 4 per cent Funding Loan.

(*d*) 4 per cent Victory Bonds.

Return for Income Tax. The return for income tax prepared by British subjects residing abroad must show the TOTAL income, wherever arising.

The British portion is charged at the average rate applicable as if the total income were British.

Example. H. Campbell, a British subject, residing abroad, has an unearned income of £1,200; £200 of this is British. He is married and has one child.

Solution—Total income, £1,200.

			£	s.	d.
Tax @ 5s. 6d.			330	-	-
As a British subject he would be entitled to the following abatements—					
Wife and Self .	£180				
One child . .	60				
	£240 @ 5s. 6d.	£66 - -			
	£135 @ 3s. 10d.	25 17 6			
			91	17	6
Tax payable if resident in U.K. . . .			£238	2	6

As the foreign income is not taxable, the following adjustment must be made—

The proportion that the British income bears to the total income is $\frac{200}{1200}$, or one-sixth; therefore the sum payable by the taxpayer is one-sixth of £238 2s. 6d. = £39 13s. 9d.

The actual tax paid on the British income being £55, a claim for repayment of the difference between this sum and £39 13s. 9d. may be lodged, i.e. the taxpayer may claim a refund of £15 6s. 3d.

NATIONAL DEFENCE CONTRIBUTION

The National Defence Contribution (referred to generally as N.D.C.) is a special tax, supplementary to Income Tax, and is payable on the actual profits arising in the five years beginning on the 1st April, 1937. It was enacted (Finance Act, 1937) as a temporary tax for the purpose of providing additional revenue towards the financing of the National Defence programme.

Scope.—The charge falls on trades and businesses carried on in the United Kingdom, or carried on (whether personally, or by an agent) by persons ordinarily resident in the United Kingdom. The profits of companies and incorporated societies whose business consists principally in holding investments or other property are assessable. The following are not liable—

(*a*) Individuals carrying on a profession dependent upon their personal qualifications, except where the business is mainly one of making contracts on behalf of others; e.g. stock-jobbers.

(*b*) Statutory undertakers for public services.

(*c*) The British Broadcasting Corporation.

(*d*) Certain industrial undertakings established in the Special Areas.

Rate of Tax.—The rate of tax is 5% of the chargeable profits in the case of corporate bodies, and 4% in any other case.

Computation of Profits.—The profits are computed as for income tax purposes under Sch. D, Case I, with certain modifications—

(1) Interest, annuity, or annual payments may be deducted from the profits, except where such payments are made to the proprietors of private businesses or to the controlling directors of companies.

(2) Investment income is excluded, except where a corporate body receives dividends from a controlled company which is not liable to N.D.C.

(3) Transactions artificially reducing profits or increasing loans are not recognized.

(4) Dominion Income Tax is allowed as a deduction.

(5) No deduction is allowed for the annual value of premises.

The authorized deduction for Wear and Tear is made against the profits of the accounting period.

Periods of Account.—An "accounting period" for N.D.C. purposes is the period of twelve months for which the accounts of the business are usually made up. If the accounts are not made up annually, the period is to be determined by the Commissioners of Inland Revenue. Those accounting periods, or parts of accounting periods, which fall within the five years—1st April, 1937, to 31st March, 1942, are called "chargeable accounting periods." Where a chargeable accounting period is not a whole accounting period, the profits are apportionable on the basis of months or fractions of a month (unless in special circumstances the Commissioners of Inland Revenue direct otherwise).

Example.—Annual account to 30th September, 1937, shows profits of £15,000. Chargeable accounting period is 1st April, 1937, to 30th September, 1937.

Chargeable profits—six-twelfths of £15,000 . . £7,500

Exemption and Abatement.—Where the profits of a chargeable accounting period do not exceed £2,000, no contribution is payable if that period is twelve months. But if the chargeable accounting period is less than twelve months, the exemption limit is reduced proportionately. In effect, the exemption applies when the profits are at a rate not exceeding £2,000 a year.

If the profits exceed £2,000 but are less than £12,000, they are reduced, for the purpose of assessment, by one-fifth of the difference between the amount of the profits and £12,000. If the chargeable accounting period is less than twelve months, both the £2,000 and £12,000 are reduced proportionately.

Example.—The profits of a company for the year ended 31st December, 1937, are £2,400.

First chargeable accounting period is 1st April, 1937, to 31st December, 1937.

		£
Profits of chargeable accounting period $\frac{9}{12}$ of £2,400		= 1,800
Lower limit of £2,000 reduced to $\frac{9}{12}$ of £2,000		= 1,500
(Therefore there is no total exemption)		
Upper limit of £12,000 reduced to $\frac{9}{12}$ of £12,000		= 9,000
	£	
Profits	1,800	
Deduct $\frac{1}{5}$ of (£9,000 – £1,800)	1,440	
Tax charged on	£360	

N.D.C. payable: 5% of £360 = £18.

Losses.—Provision is made for carrying forward losses made after 1st April, 1937, to successive chargeable accounting periods. Certain losses incurred prior to that date may also be utilized to reduce the assessment. As the provisions are very complicated, it is necessary, in practice, to refer each case to the terms of the Act.

General.—N.D.C. payable is allowed as a deduction for Income Tax purposes, but Income Tax is not allowed as a deduction for N.D.C. purposes.

N.D.C. is assessed and collected by the Commissioners of Inland Revenue. It is due and payable one month after the assessment is made.

There is a right of appeal against N.D.C. assessments.

Special provisions apply to Building Societies (which are charged at $1\frac{1}{2}$% instead of 5%) and to subsidiary companies.

QUESTIONS ON CHAPTER XXVI

A

1. What is income tax? What persons are liable to it?

2. Who are (*a*) the District Commissioners; (*b*) the Additional Commissioners; (*c*) the Special Commissioners; (*d*) assessors; (*e*) inspectors and what are their duties?

3. Enumerate the schedules under which income tax is levied. What is the official year of assessment?

4. How are house and farm property assessed under Schedule A? Give examples.

5. Is the landlord's tax always collected from the tenant? Can the tenant deduct from his rent the full amount of tax paid?

6. What is the mode of assessment under Schedule B? Give examples. Has the taxpayer a choice of any other method?

7. What taxable income is included under Schedule C? Is it earned or investment income?

8. What income is taxable under Schedule E? Is it earned or investment income?

9. What is the mode of assessment under Schedule E?

10. What taxable income is comprised under Schedule D? Is it earned or investment income?

B

1. What is the mode of assessment under Schedule D? What is meant by "statutory" income under this schedule?

2. How is the income of married women regarded by the Income Tax Acts? Can a wife claim to be separately assessed?

3. What is sur-tax? On whom is it levied? What are the limits of income and rates of tax respectively?

4. What is the mode of assessment for sur-tax? By whom is the assessment made?

5. In estimating the "statutory" income for sur-tax assessment, what deductions are allowed?

6. What two methods are there of adjusting accounts for income tax purposes?

7 Can the annual value of trade premises under Schedule A be deducted in lieu of rent? What is meant by a person having a "beneficial interest" in the assessment, and how is he affected thereby?

8. Is a company liable for tax on its debenture interest when it makes a "statutory" loss?

9. How is income tax collected from the partners in a partnership? Can the partners claim to be separately assessed for the purpose of obtaining the abatements, allowances, etc., to which they may be individually entitled?

10. How are the assessable profits adjusted in order to arrive at a partner's income (*a*) for income tax, (*b*) for sur-tax?

EXERCISE XXVI

1 Give an example of Income Tax Return (providing your own figures) showing clearly: (*a*) Allowance of tax at standard rate, (*b*) allowance at reduced rate, and (*c*) tax payable.

2. Prepare an Income Tax Return for J from the following information—
   (1) J has an income of £800. (Earned income.)
   (2) He is married and has four children.
   (3) The children's ages are 5, 9, 17, and 18 respectively.
   (4) The eldest child—a boy—is at a college with a scholarship of £100.

3. What tax will Miss Newall have to pay on her income, *All* earned, of £440, after taking into consideration the following facts: Miss Newall maintains a widowed mother who serves in the capacity of helper to three brothers who are all below 16 years of age and maintained by Miss Newall.

4. Prepare the Income Tax Return showing the individual liability of husband and wife respectively based on the following particulars—
   Husband's income: (*a*) Trade profits, £480; (*b*) Dividends, £72 gross. Wife's income: (*a*) Salary, £200; (*b*) Dividends, £144 gross.
   There are two children.

5. Y, a British subject, is a headmaster in a South African Technical College at a salary of £800; he also draws £200 (gross) in dividends from investments in the United Kingdom.

Prepare the Income Tax Return which would be required of him if he hopes to obtain the usual abatements and relief.

6. F. Brightman, a single man, resides in England, but his income is derived entirely from Colonial sources, and amounts to £700 NET, being £800 less Dominion tax at 2s. 6d. Discuss this case in its relation to liability for income tax. Upon which figure—if either—will the assessment be made?

7. What is the "Appropriate Rate" arising out of the following?—

A has an earned income of £500, and an investment income of £114. He is married with two children.

8. M has a total income of £4,380 (all unearned). He is married and has one child. What will be the "appropriate rate" in this case?

9. Briefly explain the position taken up by the Income Tax authorities on

the question of " Repairs and renewals," and " Depreciation." Could obsolescence be regarded as a legitimate charge against profits when submitting a return of profits for income tax purposes?

10. When a trader makes his return for income tax, which items, generally appearing in a profit and loss account, would not be passed by the inspector? Enumerate them, with any comments you think necessary in " border line " items.

11. B, J, and K are in partnership sharing profits and losses equally. The capitals of the partners are: B £5,000, J £4,000, and K £3,000. Each partner draws a salary equal to one-tenth of capital held, also 5 per cent interest is credited annually to each partner's capital.

The assessable profits were £9,000. Draw up a statement showing how the tax payable by the firm should be allocated among the partners.

12. John Citizen's circumstances are as under—

He owns a freehold house (gross annual value £80, net £64) which he lets to a tenant at £90 per annum. He holds his own residence on an annual tenancy at £65 per annum. His partnership profits from a firm of solicitors are one-third thereof for the financial year ended 30th April, 1937 (after this date John Citizen will be entitled to half share of the firm's profits). The firm's profits for the year ended 30th April, 1937, were £1,580 and for the year ended 30th April, 1938, profits were £1,700.

His wife is secretary to an institution at a salary of £95 and he has two children, born November, 1924, and May, 1938.

Mr. Citizen maintains two insurances, as follows: On himself at a premium of £85 (policy £1,000, dated 1926); on his wife at a premium of £9 (policy £250, dated 1923).

Compute John Citizen's liability to income tax under all schedules for the year 1938–39. (*Institute of Bankers.*)

13. F commenced business on 1st January, 1931, and discontinued on 31st December, 1933. His trading results were 1st year £400 profit, 2nd year £800 profit, and 3rd year £200 loss. What will be his assessments for income tax for each year?

14. Is an employer under any obligation to the Income Tax Authorities with reference to the salaries paid to his staff? (*Royal Society of Arts.*)

15. Robert Laws has been surcharged by the Inspector of Taxes with the under-mentioned items in reference to his assessment under Schedule D—

(*a*) 5% depreciation only, instead of the 10% claimed, has been allowed;
(*b*) Interest on loan from J. Smithers disallowed;
(*c*) Cost of removing offices to new buildings disallowed;
(*d*) Subscription to local hospital disallowed.

Has Robert Laws any right of appeal against these surcharges? If so, what course is open to him, and what chance of success has he in respect of the above items? (*Royal Society of Arts, Accounting and Banking.*)

16. The undermentioned items appeared in the annual accounts of a Limited Company. State briefly how they should be treated, when preparing the Company's return under Schedule D for income tax purposes—

(*a*) 5% reserve on total Sundry Debtors as a provision for Bad and Doubtful Debts.

(*b*) Interest received on deposit account with the Dresdner Bank, Old Broad Street, E.C.

(*c*) Premiums received on an issue of new shares.

(*d*) Loss by embezzlement by one of the Company's travellers.

17. The undermentioned items appeared in the accounts of the Pleasure Steamers Co., Ltd. How should you deal with them when preparing the Company's return under Schedule D, for Income Tax purposes?

(*a*) Profit of £1,500 realised by the sale of London and General Omnibus Co.'s stock, which formed part of the Reserve Fund Investments.

(*b*) £150 written off during the year, representing one-fifth of the Preliminary Expenses Account.

(*c*) Depreciation, at the rate of 6%, written off the cost price of the Company's steamers.

(*d*) 3,000 fully-paid shares of £1 each, received as part purchase price from a subsidiary company and distributed, by way of bonus, to the Pleasure Steamers Co. shareholders. (*R.S.A., Accounting and Banking.*)

18. Alfred Tate is an author. From the following particulars make up his return for income Tax and Sur-tax purposes for the current year. State the amount of tax payable in each case.

Income from books: £1,100. Alfred Tate also possesses £50,000 3½% Colonial Stock and £60,000 Chinese Government 4½% Bonds. He is insured (since 1910) with the Prudential Assurance Co. and pays an annual premium of £150. His wife has no income. He has one child under 16 years of age. (*London Chamber of Commerce.*)

19. M, N & P carry on business in partnership, sharing profits and losses as—

M, seven-fifteenths; N, five-fifteenths; P, three-fifteenths.

Their Profit and Loss Account for the past year was as follows—

Salaries . . .	£304	Gross Profits . .	£1,920
Trade Expenses . .	80		
Bad Debts . . .	26		
Interest on Loan .	25		
,, on Capital M	50		
Interest on Capital N.	30		
P's Salary . .	350		
Goodwill written off .	50		
Charitable Subscriptions	28		
Net Profit . . .	977		
	£1,920		£1,920

Prepare return for Income Tax for the year ending 5th April next, showing on what amount the firm would be assessed.

20. C's total income consists of a salary of £750 and £100 from War Loan interest from which Income Tax is not deducted before receipt. He is married, has two children under 16 years of age, maintains his widowed mother, and pays a life assurance premium of £20. What tax will he pay for the current year of assessment?

21. A merchant is asked to render his Account for Assessment of Sur-tax for the current year. His share of the profits of his firm's business for the year assessable for sur-tax is £7,000, in addition to which he received £2,000 for management, and interest upon his capital amounted to £3,000. He has a house, assessed under Schedule A at £150, and Railway Stock producing a net income of £725. Prepare the Account for the Commissioners, and show the amount of tax payable. (*Chartered Accountants.*)

22. A and B are partners whose profits adjusted for Income Tax purposes are £8,808. A takes three-quarters of the profits and B takes one quarter. A pays an annual life assurance premium of £520 on his own life, £87 on that of his wife. Both these may be assumed to be allowable. A is a married man; B is a bachelor. Show the amount of tax payable by the firm after allowing for all deductions due to each partner.

23. The following Profit & Loss Account was prepared from the books of a company for the year ended 31st March, 1938.

You are required to compute the company's liability to Income Tax and to show the amount of tax payable under Schedule D for 1938–39, stating under which Case or Cases of Schedule D it will be assessed. The Wear and Tear allowance in respect of Plant and Machinery (in agreement with H.M. Inspector of Taxes) is £217. (*R.S.A.*)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1938

		£			£
To Salaries		3,890	By Gross Profit from Trading A/c		13,838
,, Office and General Expenses		2,112	,, Interest on War Loan (untaxed)		100
,, Discounts allowed		617	,, Taxed Dividends on Shares in allied companies		176
,, Rent, Rates, and Insurance		1,272	,, Reserve for Bad Debts—		
,, Travelling Expenses		396	Amount reserved: 31st March, 1937	£672	
,, Bad Debts		417	Amount reserved: 31st March, 1938	£580	
,, Repairs		265			92
,, Advertising—			,, Discount received		496
Press	£168				
Enamel Signs	250	418			
,, Debenture Interest		300			
,, Bank Interest		14			
,, Directors' Fees		500			
,, Preliminary Expenses w/o		137			
,, Depreciation: Plant and Machinery		325			
,, Income Tax		764			
,, Net Profit		3,275			
		£14,702			£14,702

24. The following Profit & Loss Account is submitted by Herbert Pope to the Inspector of Taxes, who proceeds to disallow certain expenses charged in the account. You are required to compute the amount of the statutory profit assessable under Schedule D and to state briefly the reasons for the adjustments you make. Mention any point on which you would require further information. (*R.S.A.*)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 19..

		£		£
To Salaries	£650		By Gross Profit	2,060
,, Income Tax thereon	43	693	,, Dividends (net)	60
,, Commission		217		
,, Ground Rent (net)		75		
,, Rates and Insurance		84		
,, Income Tax on Business Premises		55		
,, Travelling Expenses—				
Staff	£34			
Proprietor	22	56		
,, General Expenses		68		
,, Bank Interest		37		
,, Life Assurance Premium		15		
,, Interest on Capital		40		
,, Net Profit		780		
		£2,120		£2,120

REVISION EXERCISE XXVI

1. What do you understand by the following terms? (*a*) Floating Assets; (*b*) Fixed Assets; (*c*) Preliminary Expenses, and how dealt with; (*d*) Self-balancing Ledgers; (*e*) Watering of Stock; (*f*) Allonge. (*National Union of Teachers.*)

2. What is a "Cumulative Preference Share"? The A B Co., Ltd., is three years in arrear with the dividends on its 1,000 6% Cumulative Preference Shares of £1 each. Would this fact affect the annual accounts? If so, how? (*Royal Society of Arts, Accounting and Banking.*)

3. Give what you consider would be a satisfactory ruling for the Cost Sheet of a manufacturer, with whose accounts you are familiar. State from what books of account the necessary information for the completion of the Cost Sheet would be obtained. (*Royal Society of Arts, Accounting and Banking.*)

4. What is the difference, if any, either in result or in method of preparation, between a Balance Sheet and a Statement of Affairs? (*London Chamber of Commerce.*)

5. The Birchets Mineral Water Co., Ltd., sends out cases of aerated water to chemists in various parts of the country "on sale or return." Each chemist is at once debited in the Company's books with the water supplied at the price he is to obtain for it when sold, and is allowed to deduct 10% from this value when accounting for his sales. The personal accounts of all chemists so supplied are included in the Ledger balances at the end of the year. How would you deal with these accounts when preparing the Company's Profit and Loss Account and Balance Sheet? (*London Chamber of Commerce.*)

6. Explain the difference between: (*a*) Sinking Fund; (*b*) Reserve Fund; (*c*) Reserve Account. (*Lancashire and Cheshire Union.*)

7. A Balance Sheet is presumed to be a statement of the financial position of a concern. Discuss what the "financial" position means to the following should they be attempting to gauge the "financial" position of a concern by an inspection of its balance sheet—

(*a*) A banker. (*c*) A debenture holder.
(*b*) A shareholder. (*d*) An auditor.

8. The following is the Trial Balance of the Chicago Branch of a London firm—

TRIAL BALANCE. 31st DECEMBER, 19—.	*Dr.* $. c.	*Cr.* $. c.
Head Office A/c—1st Jan.		32,602.00
Remittance A/c	14,000.00	
Stock, 1st Jan.	5,085.00	
Fixtures and Fittings	2,736.00	
Purchases	17,846.00	
Sales		35,806.00
Debtors	17,710.00	
Creditors		2,062.00
General Expenses	7,601.00	
Discount (balance)		418.00
Cash at Bank	5,450.00	
„ in hand	460.00	
Stock, 31st Dec., 19— = $5,025.00	70,888.00	70,888.00

The following information is given you—

Rate last 31st December, and for Fixtures	$4.86
„ this 31st December	$5.00
Average Rate for year	$4.92

In the Head Office books, the Branch Account balance at the beginning of the year was £6,502 14s. 6d. The Remittance Account stands at £2,786 6s. 11d. As Accountant to the firm, effect the necessary conversion into sterling, and make the necessary entries in the Head Office books to incorporate the above figures. Show also the accounts in the Head Office and Branch Books respectively.

9. F. Saunders files his petition. The following balances appear in his books—

Cash in hand, £40; Bank Overdraft, £200; Stock-in-Trade, £1,000 (expected to produce, £800); Machinery, £900 (expected to produce £750); Trade Fixtures, £300 (expected to realise £100); Book Debts: Good, £500; Doubtful, £220 (expected to produce £100); Bad, £120; Unsecured Creditors, £2,500; Bills Payable, £1,000; Fully-secured Creditors, £2,500 (who hold security value £3,500); Partly-secured Creditors, £3,000 (who hold security value £1,000); Liabilities on Bills Discounted expected to rank, £250; Creditors for Half-year's Rent, £120, and for Rates and Taxes (12 months), £20; Preferential Wages and Salaries, £50.

Prepare Statement of Affairs. How much in the £ does the estate show approximately?

10. Phillips & Thomas, Ltd.

BALANCES, 31ST DECEMBER

Goodwill . . .	£5,000	–	–	Discount allowed .	£2,035	4	2
Trade Expenses .	246	5	4	Preference Dividend to 30th June . .	240	–	–
Freehold Estate (Factory), 1st Jan. .	5,800	–	–	Insurance . .	76	9	8
Models . . .	150	–	–	Bank: Current A/c .	944	–	9
Rent received (House), half-year to 30th June last . . .	10	–	–	Horses, Carts, & Harness	229	10	–
Coal and Coke . .	768	4	9	Subscriptions and Donations . .	63	4	9
Salaries . . .	942	15	3	8,000 £1 6% Preference Shares . . .	8,000	–	–
Additions to Plant during year . .	240	–	–	Extension to Premises (Factory) . .	240	–	–
Bank Interest *Cr.*	24	5	6	Bank Deposit Receipt, dated 30th June last at 3% . . .	500	–	–
Bad Debts . .	189	5	3	Horse-keep and Cartage	346	5	7
Legal Expenses .	17	9	5	Machinery and Plant, 1st Jan. . .	2,164	–	–
Petty Cash Book .	120	6	6	Mortgage Interest to 30th June . .	80	–	–
Loan on Mortgage, 4% *Cr.*	4,000	–	–	Discount received .	842	5	4
Dwelling-house .	400	–	–	Cash	89	6	4
Sales Ledger Balances	6,091	5	4	Bought Ledger Balances	2,481	10	3
Purchases . .	37,960	3	7	Returns & Allowances *Dr.*	166	8	4
Rates and Taxes .	146	5	4	Wages . . .	5,878	2	7
14,000 £1 Ordinary Shares . .	14,000	–	–	Bills Receivable .	985	8	2
Engine and Boiler .	560	–	–	Bank Commission .	52	5	7
Stock, 1st Jan. .	8,215	5	4	Sales . . .	51,870	5	4
Travelling Expenses .	218	4	3				
Repairs . . .	158	4	11				
Returns Outwards .	85	14	9				

The Petty Cash item, £120 6s. 6d., as per Balances, represents the following payments—

	£ s. d.	£ s. d.
Goods Bought	33 9 2	
Repairs	27 18 5	
Horse Keep	15 5 7	
Travelling	24 15 2	
Sundry Expenses	14 3 7	
		115 11 11
and the Petty Cash in hand 31st December is		4 14 7
		£120 6 6

At 31st December the Stock is: Goods, £7,346 15s. 7d.; Coal, £56.

Rates are prepaid, £15. Half-year's Rent of House, £10, is due. The Interest on Bank Deposit Receipt has accrued, but is not credited to the Company in their current Banking Account. Accounts for Extensions to Premises are owing, £200. Of the Debtors, £346 is estimated to be bad. A Bill Receivable in hand, £150, is known to be bad. Depreciation is 1% on Freehold, 10% on Engine and Boiler, 5% on Machinery and Plant, and it is decided to write off one-fourth of the Extensions Account, and to treat the Models as being worth £200. Sales Ledger balances include £300 Smith Bros., who are creditors in the Bought Ledger for £250.

Reserve 5% Discount on the good debts.
Prepare Trading Account, Profit and Loss Account, and Balance Sheet as at 31st December. (*West Riding of Yorkshire.*)

11. The following balances were extracted from the books of the Stambridge Publishing Co., Ltd., as on 31st December. The nominal capital of the Company consists of 10,000 Ordinary Shares of £1 each, and 4,000 6% Preference Shares of £5 each. In addition to the publishing department, the Company has a "Supply Department" for the sale of the various goods advertised in its publications.
The publishing stock, as on 31st December, was valued at £700, and the supply stock at £4,500.
Before preparing the annual accounts, it is necessary to take the following matters into consideration—

(*a*) £500 provision for Bad and Doubtful Debts is to be made, no provision having been made in the past.
(*b*) Write off 10% depreciation on Furniture, etc.
(*c*) Charge 2½% on the net profits of the business as Managing Director's commission.
(*d*) Half the cost of the designs is to be borne by each department.
(*e*) Write off one-third of the General Advertising Expenses and carry forward the balance.
(*f*) It was decided to pay no dividend on the Ordinary Shares for the year ended 31st December, but to pay the Preference Dividend and to transfer £2,000 to Reserve. This latter transfer has not been made.

You are required to prepare a Publishing Trading and Profit and Loss Account, a Supply Trading and Profit and Loss Account, and a general Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.

LEDGER BALANCES

Copyrights Account	£18,000
Directors' Fees	400
Calls in Arrear (being 10s. per share on 20 Ordinary Shares)	10
General Office Salaries	300
Engraving Blocks	150
Rent, Rates, and Taxes	400
Stationery (General Office)	80
Literary Contributions	400
Insurance	30
Goodwill	4,000
Supply Department Sales	17,000
General Advertising Expenses	6,000
Designs for Publications	1,000
General Expenses	350
Publishing Sales	5,500
Managing Director's and Secretary's Salaries	1,500
Dividend paid on Preference Shares	1,130
Furniture, Fixtures, and Fittings	940
Publishing Department—	
Carriage	140
Postage and Telegrams	30
Publishing Department—	
Advertising Expenses	150
Trade Expenses	110
Discount Account (debit balance)	10
Cash at Bank	£1,760
Profit and Loss Account (Credit balance, 1st Jan.)	4,120
Bank Charges	10
Paper and Printing	4,250
Subscribers (amounts received)	40
Bad Debts	20
Advertisements received	4,100
Wages and Salaries	500
Reserve Account	3,000
Cash in hand	90
Supply Department—	
Purchases	9,000
Carriage	1,200
Trade Expenses	150
Wages and Salaries	1,500
Discount Account (debit balance)	30
Postage and Telegrams	90
Travelling Expenses	60
Ordinary Share Capital	4,790
Preference Share Capital	20,000
Bills Payable	2,200
Sundry Debtors	3,220
Stock, 1st Jan.—	
Publishing Department	800
Supply Department	4,000
Sundry Creditors	1,250
Bills Receivable	190

(*London Chamber of Commerce.*)

12. Describe the difference which exists between a Statement of Affairs and a Balance Sheet. Give a specimen of the former account and explain how it is prepared. (*R.S.A.*)

13. The Pernet Manufacturing Co., Ltd., was registered in 1920 with a Nominal Capital of £200,000, divided into 150,000 Ordinary Shares of £1 each and 10,000 6% Preference Shares of £5 each. Of this Capital, 65,000 Ordinary Shares had been subscribed for and allotted to the public and 20s. per share called up. The whole of the Preference Shares had been issued and fully called and paid up.

On 1st January, 1923, the Company took over the Assets and Liabilities of Lamia, Ltd., at their book values, which were as follows: Sundry Debtors, £16,136; Sundry Creditors, £3,862; Stock, £14,850; Machinery and Plant, £10,890; Cash, £1,986.

The purchase price was agreed at £50,000, and was satisfied by the issue of 50,000 Ordinary Shares in the Pernet Co. issued to the Lamia Co. as fully paid.

On 1st July, 1923, 200 5% Debentures of £100 each were issued at 95. In addition to the records arising out of the above particulars, the following balances were extracted from the books of the Company as on 31st December, 1923—

Machinery and Plant	£32,765
„ „ Additions during 1923	8,456
Leasehold Works	77,841
Manufacturing Wages	86,968
Profit and Loss Account (debit balance 31/12/22)	7,862
Sinking Fund for Leasehold Redemption	8,850
Sundry Debtors	12,460
„ Creditors	35,503
Stock (31/12/22)	32,641
Factory Power and Light	3,642
General Expenses	4,785
Purchases	76,495
Uncompleted Contracts (31/12/22)	13,844
Unpaid Calls (Ordinary Shares)	500
Returns Inwards	864
„ Outwards	3,241
Loose Tools	2,864
Machinery and Plant sold during 1923	5,641
Management Salaries	3,522
Machinery Repairs	1,267
Office Salaries	3,842
Directors' Fees	750
Office Furniture	684
Discount Account (debit balance)	174
Reserve for Bad Debts (31/12/22)	500
Travellers' Salaries and Commission	6,894
Carriage on Purchases	3,641
„ on Sales	4,846
Transfer Fees	146
Sales	169,159
Cash at Bank	3,246
„ in hand	1,187
Loan from Bank	15,000
Patents	20,000

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended 31st December, 1923, and a Balance Sheet as on that date.

When preparing these accounts, the following matters must be taken into consideration—

(*a*) No provision has been made for the Debenture Interest due on 31st December, 1923.

(*b*) As on 31st December, 1923, the following items were due but not recorded in the books: Wages, £996; Office Salaries, £226; and Directors' Fees, £750.

(*c*) Manufacturing Wages, £541, were paid to workmen employed in making Loose Tools for the Company's use, but the requisite transfer had not been made.

(*d*) The Manufacturing Account is to be charged with two-thirds of General Expenses and Management Salaries.

(*e*) Reserve £500 for fine under an uncompleted contract now subject to litigation.

(*f*) The following valuations were made as on 31st December, 1923: Machinery and Plant, £32,640; Loose Tools, £2,951; Office Furniture, £600; Stock, £28,740; and Uncompleted Contracts, £9,641.

(*g*) Reserve 2½ per cent for Travellers' Commission outstanding on December Sales, which were £13,960.

(*h*) The Bad Debt Reserve is to be made equal to 5 per cent, on the Sundry Debtors. (*London Chamber of Commerce.*)

CHAPTER XXVII

EXECUTORSHIP ACCOUNTS

Definition.—Executorship accounts are those accounts which record (1) particulars of the property of which a person dies possessed; and (2) the realisation, administration, and distribution of such property by the deceased's executors or administrators.

The Distinction Between Executors and Administrators.—An executor is appointed by the will of a deceased person to administer and distribute his property in accordance with his wishes as expressed in the will; the executor's authority being derived from the will. An administrator is appointed by the Court to deal with the estate of the intestate person (*i.e.*, one who dies without making a will), and the administrator (whose authority is derived from the Court's appointment) is usually required to enter into a bond to administer and distribute the deceased's property in accordance with the law relating to intestate persons' estates.

Administrators, however, are also appointed in certain other circumstances, including the following:—

(1) Administration *cum testamento annexo* (with the will annexed). This grant is made when a testator omits to name an executor in his will or when a named executor refuses or is unable to act.

(2) Administration *de bonis non*. If an executor dies before completing his duties, his executorship is transmissible to his own executor, hence the latter would continue and complete the administration of the original testator's estate. But where the executor dies without appointing an executor, the appointment is not transmissible to an administrator, and a grant of letters of administration *de bonis non administratis* (of the goods not administered) is made to the nearest next-of-kin of the original testator.

(3) Administration *durante absentia, i.e.*, during the absence abroad of the person legally entitled to the administration.

(4) Administration *durante minore aetate, i.e.*, during the minority of an executor or of a person entitled to act as administrator.

(5) Administration *durante dementia, i.e.*, during the lunacy of the person entitled to act as sole executor or administrator.

(6) Administration *pendente lite, i.e.*, pending litigation as to the validity of the deceased's will.

(7) Administration *ad litem, i.e.*, for purposes of litigation only.

Trustees.—A trustee is a person who holds property in trust for the benefit of other persons. If a testator's will provides that the whole or some part of the estate is to be held in trust for the benefit of some named person or persons, the executor becomes a trustee. In most cases some portion of the estate is invested and the income thereof is payable to certain persons known as life-tenants either

for a specified period or until the happening of a specified event, when the capital reverts to other persons termed "remaindermen" or "reversioners." The life-tenant may also be the remainderman, as, for example, where the will provides that the income from the property is payable to a named person until he attains a specified age, when the property itself is to be handed over or transferred to that person.

The Duties of Executors and Administrators are as follows:—

(1) To bury the deceased.

(2) To prepare and submit to the Inland Revenue an account showing the deceased's assets and liabilities and pay estate duty thereon.

(3) Executors to apply for probate of the deceased's will; administrators to apply for a grant of letters of administration.

(4) To get in and, where necessary, realise all the deceased's property.

(5) To pay funeral, testamentary, and administration expenses, and debts owing by the deceased.

(6) To pay legacies, legacy and succession duties.

(7) Executors to distribute or deal with the residue in accordance with the deceased's will; administrators to distribute the deceased's estate in accordance with the law relating to intestate persons' property.

(8) To keep accurate accounts of the dealings in the deceased's estate, to render copies of the accounts to the persons entitled thereto, and to obtain a discharge upon the completion of the administration.

The Administration of Estates Act, 1925, confers upon the executors and administrators the same rights of action as the deceased would have had if alive:—

(1) For the recovery of debts due to the deceased and for injury to or right in respect of his personal estate.

(2) For any injury committed to the real estate of the deceased within six months before his death, provided such action is brought within one year after his death.

Similarly, any action may be maintained against the personal representative of a deceased person for any wrong committed by the deceased within six months before his death to another person, but the action must be brought within six months after the personal representative has taken out probate or letters of administration, as the case may be.

Probate and Letters of Administration.—To obtain probate, the executor must obtain the deceased's will and a copy of the death certificate; he must prepare the estate duty account, showing the whole of the property passing on the death of the deceased, and swear an affidavit deposing as to the accuracy of the account. These documents must be lodged with the Probate Registry for

the district in which the deceased resided or at the Principal Registry in London. In the absence of a will, the nearest next-of-kin applies for letters of administration.

Probate contains a copy of the will (issued under the seal of the Probate Court) with a certificate stating the name(s) of the executor(s), the gross value of the estate and the amount of the estate duty paid. "Letters of administration" consists of a certificate of the appointment of the administrator(s), and also states the gross value of the estate and the amount of the duty paid.

Probate and letters of administration respectively form the executor's and administrator's authority to deal with the estate.

Classes of Property.—Property passing on the death of a person is divided into two classes, realty and personalty. Realty consists of freehold property, whilst personalty includes all movable goods and chattels. Leasehold property, irrespective of the length of the lease, is included in personal estate and is termed "chattels real" (immovable personalty).

Estate Duty.—This is a graduated duty payable on the total net value of all property, real and personal, which passes at the death of a person or of which that person was competent to dispose. From time to time, the duties payable have varied, but the space available does not permit of detailed particulars being given of the various alterations.

The rate of duty on the estates of all persons dying after 31st July, 1930, is fixed by the Finance Act, 1930, as shown in the table given below:—

1930 Scale of Duties.			1930 Scale of Duties.		
Where the Principal Value of the Estate		Estate duty is payable at the rate per cent of	Where the Principal Value of the Estate		Estate duty is payable at the rate per cent of
Exceeds	And does not exceed		Exceeds	And does not exceed	
£100	£500	£1	75,000	85,000	18
500	1,000	2	85,000	100,000	19
1,000	5,000	3	100,000	120,000	20
5,000	10,000	4	120,000	150,000	22
10,000	12,500	5	150,000	200,000	24
12,500	15,000	6	200,000	250,000	26
15,000	18,000	7	250,000	300,000	28
18,000	21,000	8	300,000	400,000	30
21,000	25,000	9	400,000	500,000	32
25,000	30,000	10	500,000	600,000	34
30,000	35,000	11	600,000	800,000	36
35,000	40,000	12	800,000	1,000,000	38
40,000	45,000	13	1,000,000	1,250,000	40
45,000	50,000	14	1,250,000	1,500,000	42
50,000	55,000	15	1,500,000	2,000,000	45
55,000	65,000	16	2,000,000	—	50
65,000	75,000	17			

Marginal Relief.—Section 13 (1) of the Finance Act, 1914, provides a concession where the value of the estate is slightly in excess of the amount where the rate changes. In such cases the total duty payable is the highest amount of duty at the previous lower rate plus an amount equal to the excess over the particular maximum.

Example.—Estate valued at £15,100.

Duty at 6% on £15,000	£ 900
Add excess over £15,000 . . .	100
Total Duty payable . . .	£1,000

In the absence of this concession, the total duty payable would be 7 per cent on £15,100 = £1,057.

Gifts Inter Vivos (during lifetime).—Gifts made by the deceased within three years of the date of death are liable to estate duty unless any such gift (1) was part of the deceased's reasonable normal expenditure; (2) did not exceed £100 to any one person; (3) was made in consideration of marriage; or (4) was made for charitable or public objects. Charitable, etc., gifts exceeding £100 are liable to estate duty if made within twelve months of death.

Donationes Mortis Causa.—A gift of personalty in anticipation of the donor's death, made conditionally upon it becoming absolute only on death and revocable during the donor's lifetime, is also liable to estate duty.

Unless the will otherwise directs, the estate duty on *donationes mortis causa* and gifts *inter vivos* is payable by the recipient and not by the executors. Particulars of the property and its value, however, must be included in the estate duty account, and if the executors are called upon to pay the duty, they must recover the amount from the recipients.

Concessions.—If property consisting of land or businesses (but not a business carried on by a company) becomes liable to estate duty within five years of the same property having previously paid duty, the following reductions are made in the duty payable on the second death:—

	Reduction.
Where death takes place within 1 year of the first death . .	50%
" " " 2 " " . .	40%
" " " 3 " " . .	30%
" " " 4 " " . .	20%
" " " 5 " " . .	10%

If, however, the value of the property has increased, these percentages are calculated on the value at the date of the first death.

Where the estate duty has to be paid to a foreign government on personalty in that foreign country, the amount of duty paid may

be deducted (Schedule No. 2) as a debt owing by the deceased. Colonial estate duty payable on property in the British colony or possession, however, may be deducted from the British estate duty payable in Great Britain in respect of such property.

Deductions from the gross value of the estate are allowable for:—

(1) All debts owing by the deceased for consideration given in money or money's worth to persons resident in Great Britain. Debts owing to persons resident abroad cannot be deducted unless they have been contracted to be paid in Great Britain or charged on property in Great Britain. (Schedule No. 1, first part.)

(2) Reasonable funeral expenses, but not including the cost of mourning, tombstone, etc. (Schedule No. 1, second part.)

Allowances may also be claimed for expenses (not exceeding 5 per cent on the value of the property) incurred in administering or realising foreign property.

Small Estates.—Estates under £100 are exempt from estate duty. Where the gross value is less than £300, a fixed duty of £1 10s. 0d. may be paid, and where the gross value is between £300 and £500 the fixed duty is £2 10s. 0d. Interest is not chargeable on the fixed duties if they are paid within twelve months of the date of death. These fixed duties are optional in place of the graduated duty on the net value, but they are usually adopted.

Interest.—The estate duty on personalty is deemed to be due and payable as on the date of death, and interest at the rate of 3 per cent per annum [Finance Act, 1933, Sec. 43 (1)] on and after 26th April, 1933, is charged from the date of death until payment is made. Interest is not chargeable on the estate duty on realty until twelve months after death.

Realty.—The estate duty on real property may be paid by eight equal yearly or sixteen equal half-yearly instalments, with interest at 4 per cent. per annum from the date at which the first instalment is due, viz., twelve months from date of death. The Inland Revenue, however, will accept part of the estate itself as payment of the duty on realty and, in that event, the conveyance is exempt from stamp duty.

The estate duty on the real property is payable out of the property itself, but the interest on this duty is a charge on the income arising out of the property.

Corrective Affidavit.—It very frequently occurs that, at the time of lodging the Estate Duty Account with the Inland Revenue, it is not possible to ascertain (1) the true total of all the deceased's property liable to estate duty, (2) the full amount of the liabilities which should be deducted, or (3) the true value of some portion of the estate and, accordingly, the estate duty account is declared to be true and correct, "as far as, at present, can be ascertained."

Further, errors may subsequently be discovered either in the undervaluation or in the overvaluation of assets or liabilities. In all these cases, corrective affidavits giving full particulars must be lodged so that the estate duty on the total may be adjusted and any excess duty paid or refunded as the case may require.

Estate Duty Account.—As already suggested, this account is required by the Inland Revenue for the assessment of estate duty; it must be rendered on the official forms supplied by the Inland Revenue authorities, and lodged with the Probate Registry at the same time that application is made for the grant of probate or letters of administration.

The official form is divided into different sections for the various classes of property of which the deceased died possessed. The sections are as follows:—

Account No. 1. First part: personal property situate in Great Britain. Second part: real property situate in England.

Schedule No. 1. First part: debts due by the deceased to persons resident in Great Britain, or due to persons resident out of Great Britain, but contracted to be paid in Great Britain, or charged on property situate within Great Britain. Second part: funeral expenses of the deceased.

Account No. 2. Personal or movable property situate out of Great Britain, which is not saleable or transferable in Great Britain.

Schedule No. 2. Debts due by the deceased to persons resident out of Great Britain, other than those deducted in Schedule No. 1.

Accounts Nos. (3*a*) and (3*b*). (3*a*) Personal property in possession or reversion, other than that in Accounts Nos. 1 and 2, less debts and incumbrances. (3*b*) Money which the deceased had, at time of death, a general power to charge on real property.

Account No. 4. Other personal property passing on deceased's death, less debts and incumbrances.

Account No. 5. Real property passing on the deceased's death on which the estate duty is to be paid on delivery of the affidavit. Form 37*a*: particulars of real and (or) leasehold property.

Schedule No. 5. Debts and incumbrances on the real property in Account No. 5.

Abstract of Affidavit.—Part 1: deceased's free property and property aggregable therewith, showing gross capital, debts and deductions, and net capital both for personalty and realty. Part 2: Property not aggregable with the deceased's free property.

Duty Payable.—Showing estate duty and interest on personalty, and estate duty payable on realty.

Valuation of the Estate.—The executor should prepare an inventory of the whole of the deceased's property and have the various assets valued by professional valuers or other responsible persons.

Investments and Stock Exchange securities are valued at the market price as at the date of death. Where two prices are given in the quotation (*e.g.*, A. B. Co. Stock 60–62 per £100 stock), one-fourth of the difference is added to the lower price and, therefore, the above example would be valued at 60½ for estate duty purposes.

With foreign securities, the same rule applies, except that the quarter difference is *deducted* from the *higher* quotation, instead of being added to the lower. Thus, French francs quoted 83·44–83·48, the conversion rate would be 83·47.

Accrued income (rents, interest, dividends, etc.) up to the date of death must be included. Where, however, Stock Exchange securities are quoted *cum. div.*, the quotation is deemed to include the accrued income and no adjustment is needed. Similarly, charges against the estate for accrued interest on mortgage, etc., must also be brought into account.

For public funds, most of which are quoted "ex div." for about one month prior to the date when the interest is due and payable, the full dividend must be added to the market *ex div.* price, since a seller at the quoted price would get that price and would also receive the dividend.

If the deceased was a partner in a firm, the value of his interest in the partnership must be stated in one amount, but if the deceased was in business on his own account, then the whole of the assets and liabilities of the business as at the date of death must be included in the account.

Example.—Prepare the Estate Duty Account in respect of the property of Arthur Mills who died on 31st August, 1933. Ignore income tax.

	£
Cash in House	25
Cash at Bank on current account	200
Cash on Deposit at Bank, bearing interest at 2% p.a. from 30th June, 1933	2,500
Household Furniture and Effects valued at	1,250
Insurance Policy with Bonus	3,500
Freehold Premises occupied by deceased at date of death valued at	5,000
(Subject to mortgage of £2,500 at 5% per annum, interest payable half-yearly on 1st January and 1st July.)	
Loan advanced by deceased on mortgage, with interest at 6% p.a., payable half-yearly on 30th June and 31st December	5,000
£8,000 Consols (2½%), valued at 70½ ex div.	5,640
Quarter's dividend on Consols due 5th October.	
£10,000 4½% Exe Corporation Debentures, Interest payable half-yearly on 31st March and 30th September valued at 91 cum div.	9,100

The funeral expenses (including tombstone, £20) amounted to £80, and the debts owing by deceased at date of death were £280.

The affidavit was lodged on 30th November, 1933.

ESTATE DUTY ACCOUNT.

First Part. Personal Property.

			£	s.	d.
Cash in House			25	–	–
Cash at Bank on current account			200	–	–
Cash at Bank on deposit account			2,500	–	–
Interest accrued thereon, 2 months at 2%			8	6	8
Household Furniture and Effects			1,250	–	–
Insurance Policy with Bonus			3,500	–	–
Loan on Mortgage			5,000	–	–
Interest accrued thereon, 2 months at 6%			50	–	–
£8,000 2½% Consolidated Stock at 70½ ex div.			5,640	–	–
One Quarter's Interest thereon, due 5th Oct.			50	–	–
£10,000 4½% Exe Corporation Debentures valued at 91 cum div.			9,100	–	–
			27,323	6	8
Deductions.	£	s. d.			
Creditors as per Schedule	280	– –			
Funeral Expenses	60	– –			
(Tombstone not allowed.)			340	–	–
Net Personalty			£26,983	6	8

Second Part. Real Property.

			£	s.	d.
Freehold Premises situate at . . . in occupation of deceased at date of death			5,000	–	–
	£	s. d.			
Less Mortgage thereon	2,500	– –			
,, Interest accrued 2 months at 5%	20	16 8	2,520	16	8
Net Realty			£2,479	3	4

SUMMARY OF AFFIDAVIT.

	£	s.	d.
Net Personalty	26,983	6	8
Net Realty	2,479	3	4
Net Aggregate Value of Estate	£29,462	10	–
Duties Payable—:			
10% on net personalty, £26,983 6s. 8d.	2,698	6	8
10% on net realty, £2,479 3s. 4d.	247	18	4
Interest on net personalty duty— 3% on £2,698 6s. 8d. for 3 months	20	4	9
Total Duty and Interest payable	£2,966	9	9

APPORTIONMENT

Definition.—Apportionment is the legal or equitable division of sums of money—either receipts or payments—amongst the persons beneficially entitled thereto or interested therein.

In its application to executorship accounts, apportionment is necessary because:—

(1) Estate duty is payable upon the whole capital, and the latter includes the proportion of income which has accrued to date of death.

(2) The life-tenants, *i.e.*, the persons entitled to the income of the estate, are entitled only to that portion of the income which has accrued subsequent to the date of death, hence rents, interest, dividends, etc., covering a period before and after death, must be apportioned between the estate and the life-tenant. The portion of the income which has accrued to date of death is regarded as capital and forms part of the estate which ultimately passes to the remainderman.

(3) In certain cases, expenditure incurred and losses on realisation are divisible between the life-tenant and the remainderman (see *post*).

The Apportionment Act, 1870, provides that "all rents, annuities, dividends, and other periodical payments in the nature of income (whether reserved or made payable under an instrument in writing or not) shall, like interest on money lent, be considered as accruing from day to day, and shall be apportionable in respect of time accordingly." An apportionment made under this Act is termed a legal apportionment.

Profits of a partnership and the profits from a voyage of a single ship privately owned are not apportionable; if received after death, such profits are regarded as wholly income. Rent payable in advance also is not apportionable; and if received before death is wholly capital, even and although the rent covers a period extending beyond the date of death.

Interim Dividends are considered as being received on account of the full dividend for the complete year. When the final dividend is received, the total for the year is ascertained and the apportionment made upon that basis. Interim dividends received before death are treated as capital, and no alteration can be made even if an apportionment shows that capital has received more than its theoretically correct share of the dividend.

ARREARS OF CUMULATIVE PREFERENCE DIVIDENDS

Where dividends on Cum. Pref. shares are in arrear at date of death, but are received subsequently, such dividends are apportioned over the period in which the profits are earned. (*In re Taylor; Mathieson* v. *Taylor.*)

For example, a testator dies on 30th September, 1933, holding shares in a company which, owing to losses, is unable to pay its cum pref. dividend for the year 1932. During 1933, however, the losses are made good and sufficient profits are earned to pay one year's dividends. This dividend, when received, is apportioned over the year 1933; nine months to 30th September being capital and the remaining three months income.

Dividends paid out of profits wholly earned in a period subsequent to death are wholly income, although the dividend may be declared for a period earlier than the date of death.

Apportionment of Payments.—All payments (outgoings) in respect of rent, ground rent, rates and taxes, etc., which cover periods before and after the date of death are apportionable in the same manner as income received.

Executorship Expenses.—The expenses incurred in proving the will, funeral expenses, estate duty, expenses of realising and protecting the estate are chargeable against capital, but interest on estate duty, and all expenses of carrying on the trust are chargeable against income.

Changes of Investments.—On the sale of investments, the whole of the proceeds belong to capital, and profits or losses arising from such sale are applicable solely to capital; they are not apportionable. Further, where the investments are sold, the life-tenant is not entitled to any apportionment of the proceeds. On the other hand, if the sale proceeds are re-invested, the life-tenant is entitled to the full amount of the next dividend on the new investment. Where, however, the purchase is made *cum div.* after the dividend has been declared, the dividend (when received) is credited to capital (*re Sir Robert Peel's Settled Estates*, 1910).

Example of Apportionment of Rent and Sch. A Income Tax.—A testator died on 10th November, 1933, and his estate included House Property let at £120 per annum, the rent being payable on the usual quarter days. The assessment for income tax (Sch. A) was on £90 at 5s. in the £.

Rent due 25th December, 1933, £30 (29th Sept. to 25th Dec. = 87 days).

		£	s.	d.	
29th Sept. to 10th Nov.	= $\frac{42}{87}$ of £30 =	£14	9	8	Capital
10th Nov. to 25th Dec.	= $\frac{45}{87}$ of £30 =	15	10	4	Income.
		£30	-	-	

Income Tax Assessment for year 6th April, 1933, to 5th April, 1934 = £90 at 5s. = £22 10s. 0d.

Apportionment—

		£	s.	d.	
6th April to 10th Nov.	= $\frac{219}{365}$ of £22 10s. 0d. =	£13	10	-	Capital
10th Nov. to 5th April	= $\frac{146}{365}$ of £22 10s. 0d. =	9	-	-	Income.
		£22	10	-	

The proportion of rent accrued to date of death, £14 9s. 8d., is included in the estate duty account as part of the deceased's property, whilst the proportion of unpaid income tax is shown as a liability due from the deceased.

When the rents are received, similar apportionments are made between capital and income. It must be borne in mind, however, that the income tax is payable (in the first instance) by the tenant on 1st January; and the tenant deducts the tax from the next payment of rent. Hence this deduction usually occurs in the March quarter. Prior to 1927–28, Schedule A tax was payable in two instalments, on 1st January and 1st July respectively.

For the sake of clearness, some authorities consider it desirable for the gross amount of rent to be entered in the Cash Book as though it were received in full, and for the income tax deduction to be entered on the credit side of the Cash Book as though it were an actual payment. If this method is adopted, the Cash Book entries will appear as follows:—

Dr. CASH BOOK. *Cr.*

	Receipts.	Income.			Capital.				Payments.	Income.			Capital.		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1933 Dec. 28	To Property A/c: Rent to 25th Dec., £30, 42 days capital				14	9	8	1934 Mch. 25	By Income Tax on Property .	9	–	–	13	10	–
	45 ,, Income	15	10	4											
1934 Mch. 25	,, Property A/c: Rent to 25th March . .	30	–	–											
June 30	,, Property A/c: Rent to 30th June . .	30	–	–											
Sept. 29	,, Property A/c: Rent to 29th Sept. . .	30	–	–											

EQUITABLE APPORTIONMENTS

This class of apportionments is governed by certain rules of Chancery, and has for its object the equitable adjustment of the relative rights of the life-tenant and the remainderman; this method is adopted in those cases where the legal method under the Apportionment Act, 1870, cannot be applied. These rules are based on the decisions which have been given in cases reviewed by the Court of Chancery, and the more important of these rules are known by the names of the cases.

The Rule in Howe v. Lord Dartmouth, 1802.—This rule is applied in those cases where a residuary bequest of personalty consists of property of a wasting and hazardous or reversionary nature, and is based on the principle that the capital must be preserved for the

benefit of *all* parties interested therein. Unless the will specifically directs that the wasting or hazardous property is to be retained for the benefit of the life-tenant, the Court assumes that it was the testator's intention that both the life-tenant and the remainderman should share in the benefits derivable from the capital.

Obviously, the wasting or hazardous property may yield a large income for a few years, but eventually the residual value of the property may be considerably reduced to the detriment of the remainderman. Hence the rule (subject to the terms of the will) that such wasting property should be realised and the proceeds invested in authorised trustee securities. The life-tenant takes the income therefrom and the capital is preserved intact for the remainderman.

For the period from the date of death to the date of realisation of the wasting asset, the life-tenant is entitled to interest at, say, 4 per cent. per annum on the value of the asset at the date of the death (or on such interest as would have been produced if the asset had been sold at that price and the proceeds invested in Consols).

This rule applies only to bequests of personalty. It does not apply to real estate, nor, since the Law of Property Act, 1925, to leaseholds (*re Brooker*, 1926).

Where unauthorised investments (not necessarily of a wasting, hazardous, or reversionary nature) are improperly retained by the executors, the same principle is applicable. (*Dimes* v. *Scott*, 1828, and *Brown* v. *Gellatly*, 1867.)

Loss on Realisation of a Mortgage Security.—It was decided in *re Atkinson*, 1904, that where a loss is sustained on the realisation of a mortgage security, the principal sums owing, and all arrears of interest, are to be added together and the amount realised on sale of the security is to be apportioned between capital and income in the proportion which the total interest in arrear bears to the principal sum owing on the mortgage.

For example, property is mortgaged for £1,000, but the interest falls in arrear. Subsequently, the trustees take possession and the property is sold for £990; the arrears of interest amounting to £100. Applying the rule in *re Atkinson*, the sale proceeds are divided between the life-tenant and remainderman as shown in the account on page 1036.

Reversionary Interests.—Where the estate includes reversionary interests, the rule in *re Earl of Chesterfield's Trusts* decides the method of apportionment between the life-tenant and the remainderman. In such cases, the reversionary interest does not produce income, and the life-tenant cannot receive anything until the reversion is realised or falls into the estate. The rule provides that it must be ascertained what sum, invested at the date of the testator's death at 3 per cent. (in later cases raised to 4 per cent., *re Baker*,

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	Income.	Capital.		Income.	Capital.
	£	£		£	£
To Balance . .		1,000	By Cash, £990 (proceeds of sale) apportioned thus—		
„ Transfer to Income Account . .	90		Capital: $\frac{1,000}{1,000 + 100}$ of £990		900
			Income: $\frac{100}{1,000 + 100}$ of £990	90	
			„ Transfer to Estate (loss) . .		100
	£90	£1,000		£90	£1,000

1924) compound interest, *less* income tax, would, on the date of realisation, amount to the sum received; this amount is capital, and the balance is income.

Example.—A died on 31st October, 1930, bequeathing a reversionary interest to B for life, with remainder to C. The reversion fell into possession on 31st October, 1933, three years later, and consisted of £2,000 5 per cent. X Corporation Stock, then valued at par. Show the apportionment between the life-tenant and the remainderman.

$$4\% \text{ less tax at 5s.} = \frac{4}{100} - \frac{1}{4}\left(\frac{4}{100}\right) = \frac{4-1}{100} = \frac{3}{100} = 3\%$$

The principal which will amount to £2,000 in three years at 4 per cent. compound interest with yearly rests less tax at 5s.; or, in other words, the present value of the reversion at date of death

$$= £\frac{2,000}{(1{\cdot}03)^3} = £\frac{2,000}{1{\cdot}092727} = £1830{\cdot}283 = £1,830 \text{ 5s. 8d.}$$

The amount due to income is:—

	£	s.	d.
1931—4% on £1,830 5s. 8d., less tax at 5s. . .	54	18	2
1932—4% on £1,885 3s. 10d., „ . .	56	11	1
1933—4% on £1,941 14s. 11d., „ . .	58	5	1
Total	£169	14	4

The £2,000 is therefore apportionable: Capital, £1,830 5s. 8d.; income, £169 14s. 4d.

The Rule in Allhusen v. Whittell.—This rule is based on the assumption that the payment of the deceased's debts and legacies

is not made until the end of the first year, and that, as the money retained through the delay produces income, the life-tenant's income is proportionately increased. Accordingly, the rule provides that as the moneys required for payment of expenses, debts, and legacies, etc., are not part of the residue, a life-tenant is not entitled to interest thereon whilst the moneys remain in the hands of the executors; and, therefore, the payments must be borne rateably by capital and the first year's income.

Example.—Estate valued at £25,000 gross; the first year's income is £1,000; and the debts, expenses, legacies, etc., amounted to £5,200. Under the rule, the apportionment of the payments is as follows:—

$$\text{Capital: } \frac{25{,}000}{26{,}000} \text{ of } £5{,}200 = £5{,}000$$

$$\text{Income: } \frac{1{,}000}{26{,}000} \text{ of } £5{,}200 = 200$$

$$\underline{\underline{£5{,}200}}$$

£200 is, therefore, charged against the first year's income and the life-tenant receives the balance, viz., £800.

In practice, however, debts and legacies are often paid before the end of the "executor's year," and the above rule was modified in *re McEuen*, 1913, to the extent that the life-tenant is entitled to the whole of the first year's income subject to a deduction of interest at 4 per cent. per annum upon the capital sum which would, with such interest, make up the total amount paid for debts, expenses, legacies, etc. The interest is calculated from date of death to the actual date of the various payments.

Example.—Date of death, 31st December, 1932. Estate valued at £25,000 gross. First year's income, £1,000. Funeral expenses, testamentary expenses, and debts, amounting to £3,000, paid on 31st March, 1933. Legacies amounting to £2,200 paid on 30th June, 1933. Show the apportionment between the life-tenant and the remainderman.

Required the principal which, invested on 31st December, 1932, at 4 per cent., would amount to £3,000 on 31st March, 1933, a period of 90 days.

Interest on £100 for 90 days at 4% is $£\left(4 \times \frac{90}{365}\right)$, and £100 would thus amount to $£100 + \left(4 \times \frac{90}{365}\right)$.

Now, $£100 + \left(4 \times \frac{90}{365}\right)$ is produced by a principal of £100

And £1 is produced by a principal of $£\dfrac{100}{100 + \left(4 \times \frac{90}{365}\right)}$

And £3,000 is produced by a principal of $\dfrac{100}{100 + \left(4 \times \frac{90}{365}\right)} \times £3{,}000$

$= £\dfrac{36{,}500 \times 3{,}000}{36{,}860} = £\dfrac{10{,}950{,}000}{3{,}686} = £2970{\cdot}6999 = £2970{\cdot}7$ (approx.)

$= £2{,}970$ 14s.

The first apportionment will therefore be:—

	£	s.	d.
Capital	2,970	14	–
Income (4% on above for 90 days)	29	6	–
Total.	£3,000	–	–

The second principal required is:—

$$\frac{100}{100 + \left(4 \times \frac{181}{365}\right)} \times £2{,}200 = £\frac{36{,}500 \times 2{,}200}{37{,}224} = £\frac{80{,}300{,}000}{37{,}224}$$

$= £2157{\cdot}2104 = £2157{\cdot}210 = £2{,}157$ 4s. 3d.

The second apportionment will therefore be:—

	£	s.	d.
Capital	2,157	4	3
Income (4% on above for 181 days) . . .	42	15	9
	£2,200	–	–

Income Account will thus be credited with the £1,000 and debited with £72 1s. 9d. (£29 6s. 0d. plus £42 15s. 9d.), leaving a balance of £927 18s. 3d. for the life-tenant.

Strictly speaking, this rule should always be applied where there are both "life-tenants" and remaindermen; but it does not apply if there are no life-tenants. Testators may, however (and usually do), exclude the application of the rule by giving directions to that effect in the will.

Annuities.—The correct apportionment of annuities bequeathed by will sometimes presents questions of difficulty, and it is necessary to take into consideration the circumstances of each case and the precise wording of the will, so as to give effect to the intentions of the testator.

Where, however, the deceased, during his lifetime, *contracted* to pay an annuity to another person for life, it is clear that the *capitalised value* of the annuity at the date of death is a charge against capital. The cases are so conflicting that it is impossible to lay down a fixed rule. In *re Dawson* (1906), where a testator had died owing an annuity, an apportionment was directed. In *re Henry; Gordon* v. *Gordon* (1907), this was disapproved, and an amount advanced by the tenant for life to buy out the annuitant was

directed to be repaid to him out of capital. In *re Perkins* (1907), an apportionment was directed. The cases were reviewed in *re Poyser* (1910), where *re Dawson* and *re Perkins* were followed in preference to *re Henry*.

The following is an example where the annuity is apportioned:—

Example.—Annuity of £60 payable half-yearly on 30th June and 31st December. Date of death is 31st December, 19...

First Instalment—

Capital: $\frac{100}{100 + 1\frac{1}{2}}$ of £60	£59	2	4
Income: 6 months' interest at 3% on £59 2s. 4d. .		17	8
	£60	-	-

Second Instalment—

Capital: $\frac{100}{100 + 3}$ of £60	£58	5	1
Income: 12 months' interest at 3% on £58 5s. 1d. .	1	14	11
	£60	-	-

and so on each half-year until the death of the annuitant.

Where the will directs the annuity to be paid out of income, no question of apportionment will arise. Apportionment applies only to annuities payable out of capital. The appropriate rate of interest is now, however, considered to be 4 per cent.

Example.—Date of death, 31st December, 19.. Testator contracted to pay an annuity of £50 to X for life. Show the first three years' apportionments, taking interest into account at 4 per cent.

Following the previous formula, we ascertain the principal which, invested at date of death at 4 per cent simple interest, will produce each instalment of the annuity on the due date; that sum is capital, and the balance is income.

First Year—

Capital: $\frac{100}{100 + (4 \times 1)}$ of £50	£48	1	6
Income (4% on above for 1 year) . . .	1	18	6
	£50	-	-

Second Year—

Capital: $\frac{100}{100 + (4 \times 2)}$ of £50	£46	5	11
Income (4% on above for 2 years) . . .	3	14	1
	£50	-	-

Third Year—

Capital: $\frac{100}{100 + (4 \times 3)}$ of £50	£44 12 10
Income (4% on above for 3 years) . . .	5 7 2
	£50 – –

LEGACIES

A legacy is a gift of personalty by will, and is sometimes termed a bequest; and the person taking it is called the legatee. A gift of real property by will is known as a devise; and the person taking it is called the devisee. There are three principal classes of legacies: (1) general, (2) demonstrative, and (3) specific; but other descriptive terms also used are vested, contingent, and residuary legacies.

A *general* legacy (sometimes termed a general pecuniary legacy) is a gift of money payable out of the general funds of the estate, whilst a *demonstrative* legacy is a gift of money payable out of a particular fund which is "demonstrated" or pointed out, *e.g.*, "I give and bequeath £100 out of the moneys on deposit at Lloyds Bank." If the demonstrated fund is not in existence at the date of death, the legacy is payable out of the funds of the general estate.

A *specific* legacy is a gift of some specific article or property in the testator's possession at the date of death, *e.g.*, "my gold watch and chain." If, however, the testator has—during his lifetime—disposed of the subject-matter of the specific bequest, the legacy is said to be "adeemed"; and, therefore, the legatee loses his right to the legacy.

Usually, specific legacies are left "free of duty," as obviously the duty cannot be collected by deduction as in the case of a gift of money. If not so left, the executor must obtain the duty from the legatee before transferring the legacy.

The distinction between *contingent* and *vested* legacies requires to be carefully noted. A contingent legacy is one which is payable only upon the occurrence of a certain event, as, for example, the bequest to a child *if and when* he attains the age of twenty-one. If the child dies before that age, the legacy is not payable. A *vested* legacy is one where the time of payment is merely postponed, *e.g.*, a gift payable at a stated date, the legatee meanwhile receiving the income therefrom. Such a legacy vests immediately in the legatee as at the date of death of the testator, and if the legatee dies before the specified date, the legacy forms part of the legatee's estate. A *residuary* legacy is a gift of the balance of the personal estate (or a part thereof) after the debts and particular legacies have been paid. This cannot be bequeathed free of duty, as there is no other fund out of which to pay the legacy duty.

Lapse.—Generally speaking, if the legatee dies before the testator, the legacy lapses, *i.e.*, is not payable, and falls into the residue of the testator's estate. The exceptions are:—

(1) Vested legacies (*see* above).

(2) Where a legacy is left to a child of the testator, and that child has predeceased the testator, leaving issue. In such cases, the legacy is payable as though the child had died immediately after the testator, and, therefore, it would be dealt with in accordance with the child's will or, if there is no will, according to the law of intestacy. Estate duty thereon is payable twice, once by the parent's estate and once by the child's estate. (*Re John Scott, Junr.*, 1900.)

(3) Where the legacy is charged on land. In this case it does not lapse, but ceases to be payable, and the land on which it is charged benefits.

Ademption.—Where a testator in his will bequeaths a specific legacy, *e.g.*, a diamond ring, to a named person, but during his lifetime he disposes of the article, the legacy (as stated above) is said to be "adeemed," *i.e.*, it is void and of no effect by reason of the testator's disposal of the article.

The Executor's Year.—The executor is allowed (Administration of Estates Act, 1925) one year in which to settle the deceased's affairs, realise the assets, and pay the debts, expenses, and legacies, but in many cases it is not possible to complete the administration within that period. If the legacies are not paid within twelve months of death, the legatees are entitled to interest at 4 per cent. per annum.

Interest is, however, payable on the following legacies from the date of death:—

(1) Legacies to children where no other provision is made for their maintenance.

(2) Demonstrative legacies whilst the demonstrated fund is in existence.

(3) Specific legacies where the subject-matter itself bears interest.

(4) Legacies bequeathed in satisfaction of a debt due by the testator.

(5) Legacies charged on land.

Legacy and Succession Duties.—Legacy duty is payable upon bequests of personalty, whilst succession duty is payable upon devises of real property. Both classes of duties are at the same rates, which are as follows:—

(1) Legacies or devises to the husband, wife, or lineal ancestors or descendants are subject to 1 per cent. duty; but the 1 per cent. is not payable: (*a*) Where the total of the property passing does not exceed £15,000; or (*b*) the total net value of the legacy does not exceed £1,000; or (*c*) the beneficiary is the widow or a child under

twenty-one years of age of the testator and the total value of the legacy does not exceed £2,000.

(2) Legacies or devises to brothers, sisters, and their descendants (nephews, nieces, etc.), and the husbands or wives of such persons are subject to 5 per cent. duty.

(3) Legacies or devises to any other person are subject to 10 per cent. duty.

Exemptions from legacy and succession duty are:—

(1) On legacies or devises where the total net value of the estate (on which estate duty has been paid) does not exceed £1,000.

(2) On legacies or devises to the Royal Family.

(3) On specific bequests under the value of £20.

(4) On legacies or devises of articles of historic or scientific interest bequeathed to a public body.

Marginal Relief.—The Finance Act, 1914, which affords, Section 13 (1), marginal relief on estate duty, as explained on page 1035, provides also, Section 13 (2), that where the net value of real and personal property is not much in excess of £1,000, the legacy and succession duty payable shall not exceed the amount by which the net value of the property for estate duty purposes exceeds £1,000.

For example, suppose that the net value of an estate for estate duty purposes is £1,003, and that it is all left to a friend, a stranger in blood—

Net value for Estate Duty purposes		£1,003 – –
Duty at lower rate, 2% on £1,000	£20	
Add excess over £1,000	3	
		23 – –
Value for Legacy Duty		£980 – –

The ordinary legacy duty would be £98 (10 per cent of £980); but, under the above concession, it will be only £3, the excess of the estate duty value over £1,000.

Payment of the Duties.—The executors are responsible to the Inland Revenue for the payment of the legacy duties; they must deduct from the legacy the appropriate duty and hand it to the Revenue within twenty-one days of the payment of the legacy. If the testator bequeaths the legacy "free of duty," the legacy is payable in full and the duty is paid out of the general funds of the estate.

Succession duty becomes due and payable when the devisee takes possession of the property or becomes entitled to the income therefrom. It must be paid by the recipient of the gift, unless the testator, by his will, otherwise directs.

Abatement.—The payment of the testator's debts precedes the payment of legacies, and in the event of the assets being insufficient to pay all the legacies in full, they "abate" proportionately, according to their class. General legacies are affected first, abating

proportionately amongst themselves, then the specific legacies. Demonstrative legacies abate with specific if the fund from which they are payable exists; but if the fund is not in existence at the testator's death, they abate with the general legacies.

Example.—The balance of X's estate after payment of debts, funeral expenses, testamentary expenses, and estate duty is represented by household furniture and effects, valued at £1,000, and cash £16,000. By his will X bequeathed the following legacies:—

	Specific.	General.
	£	£
Widow: Furniture, free of duty	1,000	
Cash " "		9,000
Son: Cash		5,000
Daughter (under 21), Cash		5,000
Private Secretary (stranger)		100
The legacy duties on the duty free bequests are—		
Widow: Furniture, 1% of £1,000		10
Widow: Cash, 1% of £9,000		90
	£1,000	£19,200

Each legatee will therefore receive $\frac{16,000}{19,200}$ (say, $\frac{5}{6}$ths) of his or her legacy, and the available cash will be divided thus:—

	£	s.	d.	£	s.	d.
Widow, $\frac{5}{6}$th of £9,000, duty free				7,500	–	–
Son, $\frac{5}{6}$th of £5,000	4,166	13	4			
Less Legacy duty at 1%	41	13	4			
				4,125	–	–
Daughter, $\frac{5}{6}$th of £5,000	4,166	13	4			
Less Legacy duty at 1%	41	13	4			
(Legacy being over £2,000, duty is payable)				4,125	–	–
Private Secretary, $\frac{5}{6}$th of £100	83	6	8			
Less Legacy duty at 10%	8	6	8	75	–	–
Amount payable in cash to legatees				15,825	–	–
Legacy duty payable to Inland Revenue—						
Widow, 1% on £7,500	75	–	–			
Son, 1% on £4,166 13s. 4d.	41	13	4			
Daughter, 1% on £4,166 13s. 4d.	41	13	4			
Private Secretary, 10% on £83 6s. 8d.	8	6	8			
Widow, Furniture, 1% on £1,000	10	–	–			
				176	13	4
				£16,001	13	4
Cash available from estate	16,000	–	–			
Proportion of duty on furniture payable by widow, $\frac{1}{6}$th of £10	1	13	4			
				£16,001	13	4

Apportionment of Duty on Legacies and Devises.—Where a specific legacy has been left *free of legacy duty*, and where a devise has been left *free of succession duty*, such duty is regarded as a general legacy, and must, if necessary, abate with the general legacies. In cases of abatement, therefore, the balance of the duty must be recovered by the executor from the legatee, or the devisee, as the case may be.

In the previous example, the whole of the £10 duty on the furniture has been borne by the estate; but only five-sixths of the £10 is chargeable to the estate; the other one-sixth of the £10 is recoverable from the widow.

Legacy Duty on Annuities, Debts, etc.—Legacy and succession duty is payable on annuities. If the will directs a fixed sum to be spent on an annuity, then legacy duty will be payable on that sum, and the balance will be used to purchase the annuity. Thus, £5,000 left to purchase an annuity for a friend, a stranger in blood would, after deduction of 10 per cent legacy duty, be reduced to £4,500. If the will directs the purchase of an annuity of a fixed amount, legacy duty at the proper rate must be deducted and an annuity purchased for the net amount. Thus, the purchase of an annuity of £200 for a friend, a stranger in blood, would become an annuity of £180 (£200 less 10 per cent). In the second case, and also where the annuity is payable out of the general income, legacy duty is charged on the capitalised value of the annuity itself, *i.e.*, the present worth of the annuity according to the tables in the Succession Duty Act. In the last case, the duty may be paid by four annual instalments.

In settled legacies, if the persons in succession are chargeable at the same rate, legacy duty is paid once for all out of the capital sum; and the balance is then invested for the general benefit. But where the persons in succession are chargeable at different rates, legacy duty is payable on each life interest, on the capital value of an annuity equivalent to the annual income; and, on the death of the life-tenant, legacy duty at the appropriate rate will be deducted from the value of the legacy before it is handed over to the remainderman.

Where a testator in his will forgives a debtor his debt, legacy duty is payable on the amount of such debt. If the will directs the payment of (*a*) debts extinguished by a previous bankruptcy, or (*b*) statute-barred debts, legacy duty is payable on the former, but not on the latter.

Legacy duty is payable on *donationes mortis causa*, but not on gifts *inter vivos*.

Residuary Account.—This account is made up as at the date when the residue of the estate (1) is distributable amongst the residuary legatees or (2) is retained by the executors in trust for

the beneficiaries. It must be submitted to the Inland Revenue in order that the correct legacy or succession duties may be assessed.

The whole of the property must be brought into account at the price realised for those assets which have been sold, whilst unrealised assets must be valued at the market price as at the date of the account. Income earned by the estate up to the date of distribution or retention also must be included. Payments made up to the date of the account for the deceased's debts, funeral expenses, estate, legacy and succession duties, legacies and devises, annuities, testamentary and administration expenses are deducted and legacy duty is payable on the distributable residue.

An example of the Residuary Account is given on page 1080.

The Residuary Legatees are entitled to a copy of the executor's accounts. Usually this takes the form of a Cash Account, showing the realisation and distribution of the estate, but particulars must also be given of all specific legacies, *i.e.*, articles or investments, etc., which are transferred intact to the beneficiaries.

INTESTACIES

Intestate Persons' Estates.—In the absence of a will, the distribution of the deceased's estate is governed by the law of intestacy to be found in the Administration of Estates Act, 1925.

Administration of Estates Act, 1925.—The Administration of Estates Act, 1925, abolished the previous two different methods of treatment for real and personal estate, and from 1st January, 1926, both classes of property have been dealt with on the same basis. Further, women are now placed on terms of absolute equality with men. Formerly, the husband had greater rights than the wife, and men were given a preference in the devolution of freehold property.

The principal rules under the Act are as follows:—

(1) *If an intestate person leaves a husband or wife without children* and without any other blood relation within the table defined in the Act, the surviving husband or wife, as the case may be, takes everything absolutely.

(2) *If the intestate person leaves a husband or wife and children*, the surviving husband or wife, as the case may be, takes:—

(*a*) All the personal chattels (furniture and other personal effects, etc.) absolutely;

(*b*) £1,000 free of all death duties and costs with interest thereon from date of death at 5 per cent. per annum until payment is made.

(*c*) The income of one-half of the remainder of the estate.

The residue of the estate is to be held on "statutory trusts" for the benefit of the children. Under these statutory trusts, the property is to be held in equal shares for all the children who are living at the time of the intestate's death and who attain the age of 21 or marry under that age. If any child of the intestate predeceases the

intestate person, his children who survive the intestate and attain the age of 21 or marry will take their parent's share between them.

(3) *If the intestate person leaves a husband or wife and no children,* but some other relatives, the surviving husband or wife takes:—

(*a*) and (*b*) As in No. 2 above;

(*c*) The income of the whole of the remainder of the estate.

The residue is vested in statutory trusts for the benefit of the surviving relatives, according to the degree of kinship (see Nos. 4 to 6).

(4) *If the deceased leaves no children, or grandchildren, but both parents,* the residue of the estate is held in trust for the father and mother in equal shares absolutely, subject to the rights of the surviving husband or wife as in No. 2.

(5) *If the deceased leaves no children or grandchildren but one parent,* the residue of the estate is held in trust for that parent, subject to the rights of the surviving husband or wife as in No. 2.

(6) *If the deceased leaves no children, no grandchildren, and no parent,* then (subject to the rights of the surviving husband or wife as in No. 2) the residue of the estate is held in statutory trusts for the relatives in the following order:—

(*a*) Brothers and sisters of the whole blood and their children.

(*b*) Brothers and sisters of the half-blood and their children.

(*c*) Grandparents in equal shares.

(*d*) Uncles and aunts (being brothers and sisters of the whole blood of a parent of the intestate) and their children.

(*e*) Uncles and aunts (being brothers and sisters of the half-blood of a parent of the intestate) and their children.

(*f*) The surviving husband or wife absolutely.

(7) *If there are no husband or wife and no relatives* as mentioned above, the whole of the residue of the estate goes to the Crown.

The said Act also contains certain provisions relating to the administration of these statutory trusts, the maintenance of children during their minority, etc., and the rights, duties and responsibilities, etc., of executors or administrators. For details of these provisions, students are referred to the Act itself or to a legal textbook dealing with that Act.

Per Capita.—*Per capita* (by the heads) means that where an intestate dies leaving children, the children's share of the estate is divisible equally among them. The children claim in their own right as actual next-of-kin. In cases of no issue, (1) parents of the intestate or, failing them, (2) brothers and sisters or, failing them, (3) grandparents or, failing them, (4) uncles and aunts become entitled to take *per capita*.

Per Stirpes.—*Per stirpes* (by the stems) means that where an intestate dies leaving children, and also children of a deceased child or children, the grandchildren share in the distribution of the estate.

Thus, suppose an intestate dies leaving three children, and also three grandchildren of a deceased child, then the children's share of the estate would be divisible into four equal parts. The three surviving children would each take one part *per capita*; and the three grandchildren would take the fourth part (their deceased parent's share) equally among them *per stirpes*. In the latter case, the children do not claim in their own right, but by representation. In cases of no issue, the issue of brothers and sisters (*i.e.*, the intestate's nephews and nieces) or, failing them, the issue of uncles and aunts (*i.e.*, the intestate's cousins) become entitled to take *per stirpes*.

Advancement and Hotchpot.—These terms are used to denote the bringing into account of a sum of money advanced by a parent during lifetime to a child for any purpose *except education*. This amount is added to the personal estate before it is divided. If, however, the advancement is greater than the beneficiary's share, the beneficiary cannot be called upon to repay anything, but, of course, he must not participate in the division.

Advancements brought into hotchpot operate only for the benefit of other children; the widow or widower cannot claim any benefit therefrom. Even where there is a will containing a hotchpot clause, the widow cannot benefit.

Example.—A died intestate, leaving a widow and three children, Alfred, Douglas, and Mabel, all over 21, who had already received advances of £4,000, £3,000, and £2,000 respectively. The residue, after the widow's appropriation of £1,000 plus 5 per cent. interest, amounted to £15,000. Show the distribution, bringing into hotchpot the advances, but ignoring interest and death duties. What difference would it make if Alfred's advance had been £7,000?

	Total.	Widow.	Alfred.	Douglas.	Mabel.
	£	£	£	£	£
Residue ($\frac{1}{2}$ to Widow for life, $\frac{1}{2}$ to Children) . . .	15,000	7,500	2,500	2,500	2,500
Add Advances . .	9,000	—	3,000	3,000	3,000
	24,000	7,500	5,500	5,500	5,500
Deduct Advances . .	9,000	—	4,000	3,000	2,000
Balance due . .	£15,000	£7,500	£1,500	£2,500	£3,500

Second part: Children's share of residue £7,500 + advances £12,000 = £19,500; and one-third of this is £6,500. As Alfred's

advance £7,000 is greater than his one-third share £6,500, he will be excluded; and the distribution will be as follows:—

	Total.	Widow.	Douglas.	Mabel.
	£	£	£	£
Residue ($\frac{1}{2}$ to Widow for life, $\frac{1}{2}$ to Children)	15,000	7,500	3,750	3,750
Add Advances	5,000	—	2,500	2,500
	20,000	7,500	6,250	6,250
Deduct Advances	5,000	—	3,000	2,000
	£15,000	£7,500	£3,250	£4,250

The £7,500 held on statutory trust for the widow passes at her death to her three children, who share it equally.

Hotchpot does not apply where there is a will, unless the will itself contains a hotchpot clause. The Administration of Estates Act, 1925, applies the **Hotchpot Rule** both to intestacies and partial intestacies. A partial intestacy is one where a deceased person in his will disposes of only part of his property, and in such cases any children or grandchildren of the deceased must bring into account any benefits that they receive under the will. Other persons, however, need not do so.

Interest on Advances.—Where some children of a testator have received advances and others have not, the Court, in order to adjust the rights of the beneficiaries among themselves, has ordered that the advances should be charged with interest at the rate of 4 per cent. per annum from the date of death to the date of distribution (*re Davy*). In other cases, where income has been received from the assets, the Court, ignoring interest, has directed that the beneficiaries should be credited with the income in the proportion that their respective net shares of the estate bear to the total estate. Thus, suppose the residue of an estate amounted to £20,000 divisible equally among a testator's three children, whose shares, after advances had been brought into hotchpot, were £9,000, £6,000, and £5,000 respectively; then the children would receive, in addition to the capital sum, $\frac{9}{20}$ths, $\frac{6}{20}$ths, and $\frac{5}{20}$ths respectively of the income (*re Hargreaves*).

Estate Duty on Advancements.—Advancements, being gifts *inter vivos*, become liable to estate duty if made within three years of the donor's death; and the duty is payable by the recipient. In such cases, the amount to be brought into hotchpot would be the amount of the advance less the estate duty paid on it (*re Beddington*). Where advances have been made more than three years before the

donor's death, and are therefore not chargeable with estate duty, the estate duty should be added to the residue to form a gross fund, when the advances are brought into hotchpot; and each beneficiary should be charged with a share of the duty in proportion to his net share of the gross amount distributable (*re Tollemache*).

THE EXECUTORS' ACCOUNTS

The Books Required.—The books of account to be kept by executors comprise the Journal, Cash Book, and Ledger. For large estates, where there are several executors, a minute book also should be kept to record particulars of the executors' transactions and decisions at their meetings, the record being signed by those present.

The Editor does not advocate the use of a Journal, as he supports the view that each Ledger Account should contain full details of every transaction. No principle is involved—the result achieved, as a matter of figures, being the same in both cases; but where the Journal is used, the tendency is for details of the transaction to be recorded in the Journal only and for the Ledger accounts to consist of a bald, meaningless summary.

The technical nature of executorship accounts necessitates that they afford clear, concise summaries of the various transactions; and this result is achieved only when full details are given in the Ledger accounts.

Many practitioners and teachers prefer the use of a Journal, more especially as it affords some real benefit to students who are approaching the subject for the first time; and for their benefit the entries in the present example have been made by means of a Journal.

If there are many properties for which rents have to be collected, or the estate includes a large number of investments, it is desirable to keep a rent roll and an investment register in which to record respectively full particulars of the properties and the investments.

The Journal.—An epitome of the will (as a memorandum and for purposes of reference) should be written in the first pages of the Journal so as to avoid the necessity of repeated reference to the will itself. Some authorities recommend that copies of the Estate Duty Account, Legacy, Succession, and Residuary Duties Accounts also should be entered in the Journal.

The opening entries should be made upon the basis of the probate values shown in the Estate Duty Account, the Estate Account being credited with the probate values of the assets and the debit entries appearing in separate accounts for the respective assets, whilst the deceased's debts, funeral expenses, etc., are debited to the Estate

Account and credited to the respective Liability Accounts. Subsequently the Journal is used for passing transfers from one Ledger account to another Ledger Account, as, for example, the profit or loss arising on the realisation of an asset.

In this connection, eminent authorities differ in opinion as to whether the asset accounts should be opened with the probate values or not. The argument in support of using these figures is that it is the only method by which the accounts show, at any time, a full, complete, and adequate record of the testator's assets and liabilities, and, therefore, it is quite impossible for any asset or liability to be overlooked at the time of any subsequent division of the estate amongst the beneficiaries.

Other authorities suggest that if the probate values are entered in the accounts, and a loss is subsequently incurred on realisation, the executors might be required to make good that loss. They therefore recommend that only a memorandum note of the probate values should be taken, and that the estate and asset accounts should be written up as and when the assets are realised. In other words, the accounts are solely on a cash basis; but it is submitted that the Cash Account or system is not a complete record. Moreover, the foregoing view of the executors' personal responsibility does not appear to be correct. An executor is *prima facie* responsible for the proper realisation of the assets entrusted to his care, and he would be personally chargeable only for a breach of trust in the execution of his duty. This personal liability arises whether the facts are entered in books of account or not.

The actual method to adopt is largely a question of expediency, *i.e.*, what is the best method to pursue in the individual circumstances of each case. For small estates, the cash method is probably the most convenient, but for large estates, where many interests are involved, the complete method of recording full details of the assets and their subsequent realisation is undoubtedly the best. The latter method, which is generally adopted by professional accountants, is adopted in the example shown in the subsequent pages.

The Cash Book.—The most suitable form of Cash Book contains three columns showing respectively the apportioned amounts for income and capital, as in the example on page 1066. In practice, however, sometimes the total column is *omitted*, and sometimes only the total column is used. In the latter case, adjustments are made in the Ledger, thus (page 1066) the first item of £56 5s. 0d. might be posted in one item, and then £1 16s. 8d. transferred to Income Account and £54 8s. 4d. to Capital Account.

The entries should show full details and, where apportionment occurs, the respective periods for income and capital should be stated.

The Ledger.—Two money columns, representing income and capital, should be shown on both sides of the Ledger and, if there are a large number of investments, it is convenient to have a third column to record the nominal value of the investments.

The usual accounts opened are the Estate Account, Income Account, separate accounts for funeral, testamentary, and executorship expenses, creditors, debtors, legacies and devises, each investment, leasehold or freehold property, and a separate account for each annuitant, life-tenant and residuary legatee. Profits or losses on the realisation of assets, those expenses which are chargeable against capital, and the payment of legacies are transferred to the Capital Account. The final balance represents the residual value of the estate, and this final balance is divided and transferred to the credit of the residuary legatees' accounts.

Income Account.—To this account are transferred the credit balances of the income columns of the various investment and property accounts, whilst on the debit side are entered the transfers from the expense accounts which are applicable to income, *e.g.*, interest on estate duty and expense of carrying on the estate, etc.

The balance of the Income Account is divided amongst the life-tenants in the proportions in which they are entitled to share the income and credited to their respective accounts, the latter accounts being debited from the Cash Book with the actual payments made.

Example.—Charles Day died on 2nd January, 1933, and his estate was valued for probate as follows:—

				£	s.	d.
£12,000 Consols 2½%, at 72 ex. div.				8,640	–	–
Dividend due 5th Jan.	£75	–	–			
Less tax at 5s. in £	18	15	–			
				56	5	–
£20,000 3½% War Loan at 98				19,600	–	–
100 Cum Preference Shares of £10 each in the Exe Co., Ltd., at £8 per share				800	–	–
100 Ordinary Shares of £5 each in the Alpha Co., Ltd., at £10 each				1,000	–	–
$\frac{8}{64}$ths share (nom. value, £800) in the S.S. *Delaware*, valued at				850	–	–
Cash in the house				13	10	–
Cash at bank				475	12	6
Cash on deposit (interest to 31st Dec. paid)				7,000	–	–
Interest accrued thereon (two days)				2	–	–
Loan on mortgage at 5%				2,000	–	–
6 months' interest thereon, due 2nd January	£50	–	–			
Less income tax at 5s.	12	10	–			
				37	10	–
Household Furniture				1,100	–	–
Leasehold House (let at £100 per annum and subject to a ground rent of £8 per annum)				900	–	–
Rent due from Midsummer to date				52	–	–
Freehold Residence				2,400	–	–

Liabilities.

		£	s.	d.
Debts due by deceased		306	–	–
Ground rent due 1st January		4	–	–
Liability for Sch. A income tax on leasehold property (assessed at £80) from 6th April, 1932, to 2nd January, 1933 = $\frac{272}{365}$ of £20	£14 18 1			
Less proportion of tax on ground rent $\frac{272}{365}$ of £2	1 9 10			
		13	8	3
Liability to Sch. A tax on freehold residence (assessed at £120) from 6th April to 2nd January = $\frac{272}{365}$ of £30		22	7	2

By his will the testator left the following legacies free of duty:—

Household furniture and effects to his widow; £250 to his brother; £500 to his niece; and his shares in the Alpha Co. to his secretary.

The residue of the estate was to be held in trust for the benefit of his widow (free of all duties) during her lifetime. On her death the residue was to be realised and distributed; one-fourth to his niece and the remainder equally between the Mayville Hospital and the Mayville Orphanage.

The will directed that the rule in *Allhusen* v. *Whittel* should not apply.

The widow died on 5th October, 1933.

The executors' receipts and payments were as follows:—

1933.			£	s.	d.
Jan. 5.	Quarter's dividend on £12,000 Consols		56	5	–
25.	Half-year's rent of leasehold property to Christmas, 1932.	£50 – –			
	Less Income Tax, Schedule A (£80 at 5s.)	20 – –			
			30	–	–
28.	Sch. A tax on Freehold Residence		30	–	–
„	Ground Rent to Christmas paid	£4 – –			
	Less tax at 5s.	1 – –			
			3	–	–
Feb. 2.	Funeral Expenses		57	–	–
„	Debts due by deceased		306	–	–
Mar. 31.	Withdrawn from Deposit Account		4,800	–	–
„	Dividend from S.S. *Delaware* in respect of voyage ended 2nd Dec., 1931		49	–	–
„	Proceeds of sale of shares in S.S. *Delaware*		900	–	–
„	Dividend on Cum. Pref. Shares in Exe Co. for year ended 31st Jan., 1932, out of profits earned in year ended 31st Jan., 1933.		49	–	–
	(N.B.—The company made no profits in 1931–32.)				
	Inland Revenue, Estate Duty paid				
	13% on Personalty,[1] £42,124 2s. 1d.	£5,476 2 8			
	Interest thereon, 4%—88 days	52 16 3			
	13% on Realty, £2,400	312 – –			
			5,840	18	11
April 5.	Quarter's dividend on £12,000 Consols		56	5	–
30.	Legacies paid: Brother, £250; Niece, £500		750	–	–

[1] This amount will be arrived at as indicated on page 1039, and the Estate Account (p. 1068) agrees therewith.

1933.				£	s.	d.
April 30.	Shares in Alpha Co. transferred to the beneficiary and legacy duty thereon received from him—10% .			100	–	–
30.	Inland Revenue—Legacy Duties—					
	Widow, on Furniture, etc., 1% on £1,100	£11 – –				
	Brother, 5% on £250 . . .	12 10 –				
	Niece, 5% on £500 . . .	25 – –				
	Secretary, 10% on £1,000 . . .	100 – –				
				148	10	–
May 29.	Purchase of £2,000 Consols at 71			1,420	–	–
	Brokerage, etc.			3	18	–
„	Net proceeds of sale of 100 Cum. Pref. Shares of £10 each in Exe Co.			1,030	10	–
June 1.	Half-year's dividend on £20,000 3½% War Loan .			350	–	–
30.	Interest on Bank Deposit			140	–	–
July 1.	Widow, on account of income.			300	–	–
„	Inland Revenue: Legacy Duty thereon . . .			3	–	–
„	Half-year's ground rent to Midsummer .	£4 – –				
	Less income tax 5s..	1 – –				
				3	–	–
2.	Proceeds of security for mortgage and unpaid interest (forfeited to the estate)			1,890	–	–
„	Place on Deposit Account			1,345	–	–
5.	Half-year's rent of leasehold house			50	–	–
July 5.	Rent from widow, who took over freehold residence at £150 per annum and paid rent from 3rd Jan. to 24th June			71	14	–
„	Proceeds of sale of leasehold property . . .			1,000	–	–
„	Quarter's dividend on £14,000 Consols	£87 10 –				
	Less income tax at 5s.	21 17 6				
				65	12	6
Sept. 30.	Widow on account of income			250	–	–
„	Inland Revenue, Legacy Duty thereon—1% . .			2	10	–
Oct. 5.	Quarter's dividend on £14,000 Consols . . .			65	12	6
	Interest on Deposit Account to date . . .			57	10	–
„	Date of widow's death.					

The book value of the property "passing" on the widow's death to the residuary legatees is represented by the balance of the Estate Account on 5th October, £35,998 3s. 11d. (*see* page 1068). Estate duty will be payable thereon on the market values of the assets represented by this balance, but subject to an allowance of 50 per cent. on the duty payable on the freehold property owing to the estate duty being payable a second time within twelve months of the first death (*see* page 1035). This duty is payable out of the property itself, the rate of duty being determined by the net aggregate total of the widow's own estate, plus the above property passing on her death. For purposes of this exercise, the rate has been taken at 12 per cent. on the book value, thus:—

12% on Personalty £33,598 3s. 11d. =		£4,031 15 8	
12% on Realty, £2,400	= £288 – –		
Less allowance, 50%	= 144 – –		
		144 – –	
		£4,175 15 8	

The widow's executors are entitled to receive all income which has accrued to date of her death; any subsequent income is credited to capital and forms part of the residue distributable to the remaindermen:—

1933.			£	s.	d.
Nov.	1.	Widow's executors gave up possession of freehold residence and paid rent to date	52	–	–
	14.	Freehold residence sold, net proceeds	2,425	–	–
	"	£4,000 Consols sold at 73 cum div.	2,920	–	–
		Less Brokerage charges, etc.	7	14	–
	"	Inland Revenue: Estate Duty paid	4,175	15	8
		Interest on Personalty (3% on £4,031 15s. 8d. for 40 days)	13	5	1
Dec.	1.	Dividend on War Loan	350	–	–
	"	Interest on Deposit Account	26	12	6
	"	Deposit Account transferred to Current Account	3,545	–	–
Dec.	1.	Executorship expenses on realisation	58	12	6
	2.	The residuary legatees agreed to take over the investment in Consols and War Loan in their due proportions. Consols were valued at 74 and War Loan at 101.			

Prepare the executors' accounts, making reserves (where necessary) for unpaid income tax, and show (1) interim Balance Sheet at date of widow's death, (2) final Balance Sheet with proposed distribution of assets as at 2nd December, and (3) Residuary Account.

N.B.—In the final apportionment of cash the legacy duty on the total of each residuary legatee's share of the residue (Cash + Consols + War Loan) must be deducted from their respective shares of the cash.

JOURNAL.

1933			£	s.	d.	£	s.	d.
Jan. 2	Sundry Assets . . . *Dr.*							
	To Estate Account	1				44,926	17	6
	Consols (2½%), £12,000 at 72 ex div.	3	8,640	–	–			
	Dividend thereon due 5th Jan. . . . £75 – –							
	Less tax at 5s. . 18 15 –		56	5	–			
	War Loan (3½%) £20,000 at 98 cum. div.	4	19,600	–	–			
	Exe Co., Ltd., Cum. Pref. Shares of £10 each, 100 at £8	5	800	–	–			
	Alpha Co., Ltd., Ord. Shares of £5 each, 100 at £10	6	1,000	–	–			
	S.S. *Delaware*, $\frac{8}{64}$ths Share (Nom. Val. £800) *valued at*	7	850	–	–			
	Cash in the house	C.B.	13	10	–			
	Cash at Bank	C.B.	475	12	6			
	Carried Forward		31,435	7	6	44,926	17	6

JOURNAL—*Continued.*

1933			£	s.	d.	£	s.	d.
	Brought Forward .		31,435	7	6	44,926	17	6
Jan. 2	Cash on Deposit	8	7,000	–	–			
	Interest accrued thereon (two days)	8	2	–	–			
	Loan on Mortgage at 5% . .	9	2,000	–	–			
	6 months' interest thereon, due 2nd Jan. . . . . £50 – –							
	Less income tax at 5s. 12 10 –	9	37	10	–			
	Household Furniture . . .	10	1,100	–	–			
	Leasehold Property, valued at .	11	900	–	–			
	Rent due from Midsummer to date	11	52	–	–			
	Freehold Property (own residence) valued at	12	2,400	–	–			
Jan. 2	Estate Account . . . . *Dr.*	1	345	15	5			
	To Sundry Liabilities—							
	Deceased's Debts	13				306	–	–
	Leasehold Property (Ground Rent)	11				4	–	–
	Income Tax Suspense Account .	14				35	15	5
	Liability for Sch. A Income Tax on Leasehold Property assessed at £80 at 5s. $\frac{272}{365}$ of £20 . . £14 18 1							
	Less proportion of tax on ground rent . 1 9 10 ($\frac{272}{365}$ of £2)							
	13 8 3							
	On Freehold Property (£120 at 5s.) = $\frac{272}{365}$ of £30 . . 22 7 2							
	£35 15 5							
Apr. 30	Legacies Account . . . *Dr.*	15	2,100	–	–			
	To Sundries—							
	Household Furniture . .	10				1,100	–	–
	Transferred to widow.							
	Alpha Co. Shares . . .	6				1,000	–	–
	Transferred to secretary.							
Oct. 5	Income Tax Suspense Account *Dr.*	14	35	15	5			
	To Sundries—							
	Leasehold Property . . .	11				13	8	3
	Freehold Property . . .	12				22	7	2
	Transfer of income tax on rent apportioned to capital.							
	Carried Forward .		47,408	8	4	47,408	8	4

JOURNAL—*Continued.*

			£	s.	d.	£	s.	d.
1933	Brought Forward .		47,408	8	4	47,408	8	4
Oct. 5	Sundries . . . . . *Dr.*							
	To Estate Account . .	1				474	12	2
	Exe Co. Shares	5	275	12	2			
	S.S. *Delaware*	7	99	–	–			
	Leasehold Property . . .	11	100	–	–			
	Profits on realisation.							
Oct. 5	Estate Account . . . *Dr.*	1	3,212	7	8			
	To Sundries—							
	Loan on Mortgage . . .	9				192	10	–
	Loss on realisation.							
	Legacies Account . . .	15				2,850	–	–
	Legacy Duty Account . .	16				154	–	–
	Payment of legacies and duty.							
	Deposit Account . . .	8					10	–
	War Loan	4				15	7	8
	Reserves for unpaid income tax							
Oct. 5	Sundries *Dr.*							
	To Income Account . . .	2				693	8	4
	Consols (dividends) . . .	3	189	6	8			
	War Loan	4	216	6	11			
	Exe Co. Shares (dividends) . .	5	3	17	10			
	Bank Deposit (interest) . .	8	146	12	6			
	Loan on Mortgage ,, . . .	9	33	15	–			
	Leasehold Property (net rents) .	11	39	8	3			
	Freehold Property . . .	12	64	1	2			
	Being transfer of dividends, etc.							
Oct. 5	Sundries *Dr.*							
	To Income Tax Suspense Account	14				148	2	6
	Loan on Mortgage Account . .	9	11	5	–			
	Reserve for income tax on £45 at 5s.							
	War Loan	4	87	10	–			
	Reserve for income tax on £350 at 5s.							
	Income £288 9 3 at 5s.=£72 2 4							
	Capital 61 10 9 ,, 15 7 8							
	Deposit Account	8	49	7	6			
	Reserve for income tax on £197 10 –							
	Income £195 10 at 5s. =£48 17 6							
	Capital 2 – ,, 10 –							
Dec. 1	Sundries *Dr.*							
	To Estate Account . . .	1				137	10	8
	War Loan (net dividends) . .	4	81	15	3			
	Deposit Account (net interest) .	8	19	19	5			
	Freehold Property . . .	12	35	16	–			
	Profit on realisation.							
	Carried Forward .		52,074	9	8	52,074	9	8

1933			£	s.	d.	£	s.	d.
	Brought Forward .		52,074	9	8	52,074	9	8
Dec. 1	Sundries *Dr.*							
	To Income Account . . .	2				221	18	9
	Freehold Property (rents to 5th Oct.	12	41	4	–			
	War Loan (dividend to 5th Oct.) .	4	180	14	9			
Dec. 1	Sundries . *Dr.*							
	To Income Tax Suspense Account	14				94	3	1
	War Loan	4	87	10	–			
	Reserve for income tax on £350 at 5s.							
	Deposit Account	8	6	13	1			
	Reserve for income tax on £26 12s. 6d. at 5s.							
Dec. 2	Sundries *Dr.*							
	To Estate Account . . .	1				908	2	1
	Consols	3	246	11	4			
	War Loan	4	661	10	9			
	Appreciation in value of investments.							
		£	53,298	13	7	53,298	13	7

Dr. CASH BOOK *Cr.*

		Led. Fo.	Income.			Capital.			Total.		
			£	s.	d.	£	s.	d.	£	s.	d.
1933 Jan. 2	To Estate Account [1]	1				489	2	6	489	2	6
5	,, Dividend on £12,000 Consols—										
	Income, 3 days	3	1	16	8						
	Capital, 89 ,,	3				54	8	4	56	5	–
25	,, Leasehold Property—										
	Rent to Xmas (Gross)	11				50	–	–	50	–	–
28	,, Leasehold Property—										
	Tax on Ground Rent	11				1	–	–	1	–	–
Mch. 31	,, Deposit Account (Transfer)	8				4,800	–	–	4,800	–	–
31	,, S.S. *Delaware*—										
	Dividend for voyage ended 2nd Dec., 1931	7				49	–	–	49	–	–
,,	,, S.S. *Delaware*—										
	Sale of Shares	7				900	–	–	900	–	–
31	,, Exe Co., Ltd. Dividend—										
	Income 29 days	5	3	17	10						
	Capital, 336 ,,	5				45	2	2	49	–	–
April 5	,, Dividend on £12,000 Consols	3	56	5	–				56	5	–
May 29	,, Exe Co., Ltd.—										
	Sale of Shares	5				1,030	10	–	1,030	10	–
June 1	,, Dividend on £20,000 War Loan:										
	Income, 150 days	4	288	9	3						
	Capital, 32 ,,	4				61	10	9	350	–	–
30	,, Bank Deposit Interest	8	138	–	–	2	–	–	140	–	–
July 1	,, Leasehold Property—										
	Income Tax on Ground Rent	11		10	2		9	10	1	–	–
2	,, Mortgage Security Sale proceeds										
	Income $\frac{50}{2,100}$ of £1,890	9	45	–	–						
	Capital $\frac{2,050}{2,100}$ of £1,890	9				1,845	–	–	1,890	–	–
	Carried forward		533	18	11	9,328	3	7	9,862	2	6

		Led. Fo.	Income.			Capital.			Total.		
			£	s.	d.	£	s.	d.	£	s.	d.
1933 Jan. 25	By Leasehold Property—										
	Income Tax on Rent:										
	Income, 93 days	11	5	1	11						
	Capital, 272 ,,	11				14	18	1	20	–	–
28	,, Freehold Property—										
	Income Tax:										
	Income, 93 days	12	7	12	10						
	Capital, 272 ,,	12				22	7	2	30	–	–
28	,, Leasehold Property—										
	Ground Rent (Gross)	11				4	–	–	4	–	–
Feb. 2	,, Funeral Expenses	1				57	–	–	57	–	–
,,	,, Deceased's Debts	13				306	–	–	306	–	–
Mch. 31	,, Inland Revenue—										
	Estate Duty, Realty	1				312	–	–			
	,, ,, Personalty	1				5,476	2	8	5,788	2	8
	Interest on Personalty Duty	2	52	16	3				52	16	3
Apr. 30	,, Legacies Account—										
	Brother	15				250	–	–			
	Niece	15				500	–	–	750	–	–
	,, Inland Revenue Legacy Duties										
	Widow (Furniture), 1% on £1,100	16				11	–	–			
	Brother, 5% on £250	16				12	10	–			
	Niece, 5% on £500	16				25	–	–			
	Secretary, 10% on £1,000	16				100	–	–	148	10	–
May 29	,, Consols, purchase of £2,000 at 71 and Brokerage	3				1,423	18	–	1,423	18	–
July 1	,, Widow, on account of Income	2	300	–	–				300	–	–
,,	,, Inland Revenue—										
	Legacy Duty thereon	16				3	–	–	3	–	–
	Carried forward		365	11	–	8,517	15	11	8,883	6	11

[1] It is assumed that the Cash in the House (£13 10s.) and the Cash at Bank (£475 12s. 6d.) were transferred to a new banking account in the name of the executors.

Dr.

		Led. Fo.	Income. £	s.	d.	Capital. £	s.	d.	Total. £	s.	d.
1933	Brought forward		533	18	11	9,328	3	7	9,862	2	6
July 5	To Leasehold Property— Half-year's Rent (Gross)	11	48	–	–	2	–	–	50	–	–
"	" Freehold Property— Rent to 24th June (Gross)	12	71	14	–				71	14	–
"	" Leasehold Property— Sale proceeds	11				1,000	–	–	1,000	–	–
"	" Dividend on £14,000 Consols	3	65	12	6				65	12	6
Oct. 5	" " " "	3	65	12	6				65	12	6
"	" Interest on Depost Account	8	57	10	–				57	10	–
			£842	7	11	10,330	3	7	11,172	11	6
Oct. 5	To Balance b/d		222	16	11	464	17	8	687	14	7
Nov. 1	" Freehold Property— Rent to date: Income, 103 days	12	41	4	–						
	Capital, 27 "	12				10	16	–	52	–	–
14	" Freehold Property— Sale proceeds	12				2,425	–	–	2,425	–	–
14	" Consols, sale of £4,000 stock, cum. div. £2,920 – – *Less* Brokerage 7 14 –	3				2,912	6	–	2,912	6	–
Dec. 1	" War Loan, dividend on £20,000 Stock— Income, 126 days	4	240	19	8						
	Capital, 57 "	4				109	–	4	350	–	–
"	" Deposit Account Transfer	8				3,545	–	–	3,545	–	–
"	" " " Interest.	8				26	12	6	26	12	6
			£505	–	7	9,493	12	6	9,998	13	1
Dec. 2	To Balance c/d		505	–	7	5,245	19	3	5,750	19	10

Cr.

		Led. Fo.	Income. £	s.	d.	Capital. £	s.	d.	Total. £	s.	d.
1933	Brought forward		365	11	–	8,517	15	11	8,883	6	11
July 1	By Leasehold Property— Ground Rent (Gross).	11	4	–	–				4	–	–
2	" Deposit Account, Transfer	8				1,345	–	–	1,345	–	–
Sept. 30	" Widow on account of Income.	2	250	–	–				250	–	–
"	" Legacy Duty thereon	16				2	10	–	2	10	–
Oct. 5	" Balance c/d		222	16	11	464	17	8	687	14	7
			£842	7	11	10,330	3	7	11,172	11	6
Nov. 14	By Inland Revenue— Estate Duty, Personalty	1				4,031	15	8			
	" " Realty	1				144	–	–			
	Interest on Personalty Duty	1				13	5	1	4,189	–	9
Dec. 1	" Executorship Expenses on realisation	1				58	12	6	58	12	6
2	" Balance c/d		505	–	7	5,245	19	3	5,750	19	10
			£505	–	7	9,493	12	6	9,998	13	1

Dr. ESTATE ACCOUNT 1 **Cr.**

1933			£	s.	d.	1933			£	s.	d.
Jan. 2	To Sundry Liabilities—					Jan. 2	By Sundry Assets—				
	Deceased's Debts	J.	306	–	–		£12,000 Consols at 72 ex div.	J.	8,640	–	–
	Ground Rent	,,	4	–	–		Div. due 5th Jan.		56	5	–
	Income Tax, Sch. A	,,	35	15	5		£20,000 War Loan at 98 cum div.	,,	19,600	–	–
Feb. 2	,, Cash—						Exe Co., Cum. Pref. Shares, 100 at £8		800	–	–
	Funeral Expenses	C.B.	57	–	–		Alpha Co., Ord. Shares, 100 at £10	,,	1,000	–	–
,,	,, Balance c/d—						S.S. *Delaware*, $\frac{8}{64}$ths share	,,	850	–	–
	Net value of estate		44,524	2	1		Cash in the house	,,	13	10	–
							Cash at Bank	,,	475	12	6
							Cash on Deposit	,,	7,000	–	–
							Accrued Interest	,,	2	–	–
							Loan on Mortgage	,,	2,000	–	–
							Accrued Interest	,,	37	10	–
							Household Furniture	,,	1,100	–	–
							Leasehold Property	,,	900	–	–
							Rent accrued	,,	52	–	–
							Freehold Property	,,	2,400	–	–
		£	44,926	17	6			£	44,926	17	6
Mch. 31	To Cash Estate Duty on Personalty	C.B.	5,476	2	8	Feb. 2	By **Balance b/d**		44,524	2	1
	,, ,, ,, ,, on Realty	,,	312	–	–	Oct. 5	,, **Transfer Profit on realisation**—				
Oct. 5	,, Transfers—						Exe Co., Shares	J.	275	12	2
	Loan on Mortgage (Loss)	J.	192	10	–		S.S. *Delaware* Shares	,,	99	–	–
	Legacies paid	,,	2,850	–	–		Leasehold Property	,,	100	–	–
	Legacy Duty	,,	154	–	–						
	Deposit Account, reserve for Income Tax	,,		10	–						
	War Loan do.	,,	15	7	8						
,,	,, **Balance c/f**		35,998	3	11						
		£	44,998	14	3			£	44,998	14	3

Dr. . ESTATE ACCOUNT—*contd.* **Cr.**

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
1933						1933					
Nov. 14	To Estate Duty—					Oct. 5	By Balance b/f		35,998	3	11
	Personalty . . .	C.B.	4,031	15	8	Dec. 1	,, Transfers—				
	Realty	,,	144	–	–		War Loan Dividends . .	J.	81	15	3
	Interest	,,	13	5	1		Deposit Interest . .	,,	19	19	5
Dec. 1	,, Executorship Expenses . .	,,	58	12	6		Freehold Property, Profit on Realisation . .	,,	35	16	–
2	,, Balance c/d		32,796	3	5	2	,, Appreciation in value Consols	,,	246	11	4
						,,	,, ,, ,, War Loan	,,	661	10	9
		£	37,043	16	8			£	37,043	16	8
						Dec. 2	By Balance b/d		32,796	3	5

Dr. INCOME ACCOUNT 2 **Cr.**

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
1933						1933					
Mar. 31	To Cash: Interest on Estate Duty	C.B.	52	16	3	Oct. 5	By Transfers—				
July 1	,, ,, Widow. . . .	,,	300	–	–		Consols, dividends . .	J.	189	6	8
Sept. 30	,, ,, ,, ...	,,	250	–	–		War Loan ,, . .	,,	216	6	11
Oct. 5	,, Balance c/d		90	12	1		Exe Co. ,, . .	,,	3	17	10
							Bank Deposit Interest .	,,	146	12	6
							Mortgage ,, .	,,	33	15	–
							Leasehold Property, net Rents	,,	39	8	3
							Freehold property, net Rents	,,	64	1	2
			£693	8	4				£693	8	4
Dec. 2	To Balance c/d		312	10	10	Oct. 5	By Balance b/d		90	12	1
						Dec. 1	,, Transfers—	J.			
							Freehold Property Rents .	,,	41	4	–
							War Loan (Div.) . .		180	14	9
			£312	10	10				£312	10	10
						Dec. 2	By Balance b/d		312	10	10

Dr. 2½% CONSOLIDATED STOCK 3 *Cr.*

Dividends payable on 5th January, 5th April, 5th July, and 5th October.

		Income.			Capital.					Income.			Capital.		
		£	*s.*	*d.*	£	*s.*	*d.*			£	*s.*	*d.*	£	*s.*	*d.*
1933								1933							
Jan. 2	To Estate Account— £12,000 Stock at 72 ex div..				8,640	–	–	Jan. 5	By Cash: Dividend— Income 3 days	1	16	8			
	Div. due 5th Jan.				56	5	–		Capital 89 ,,				54	8	4
May 29	,, Cash: purchase of £2,000 stock at 71 and brokerage				1,423	18	–	April 5	,, Cash: dividend	56	5	–			
								July 5	,, ,, ,,	65	12	6			
Oct. 5	,, Transfer to Income A/c	189	6	8				Oct. 5	,, ,, ,,	65	12	6			
								,,	,, Balance c/d				10,065	14	8
		£189	6	8	10,120	3	–			£189	6	8	10,120	3	–
Oct. 5	To Balance b/d				10,065	14	8	Nov. 14	,, Cash: sale of £4,000 stock at 73, *less* brokerage				2,912	6	–
Dec. 2	,, Estate Account, appreciation in value				246	11	4	Dec. 2	,, Value of £10,000 stock at 74 c/d.				7,400	–	–
				£	10,312	6	–					£	10,312	6	–
Dec. 2	To Balance b/d				7,400	–	–								

Another method of treatment is to post both the £1 16s. 8d. and the £54 8s. 4d. into the inner column, and then transfer to Income Account and Capital Account respectively—leaving the Capital figure at the Probate value—and the Editor prefers that method of treatment.

Dr. 3½% WAR LOAN 4 *Cr.*

Dividends payable on 1st June and 1st December, free of tax.

		Income.			Capital.					Income.			Capital.		
		£	*s.*	*d.*	£	*s.*	*d.*			£	*s.*	*d.*	£	*s.*	*d.*
1933 Jan. 2	To Estate Account, £20,000 stock at 98 cum. div.				19,600	–	–	1933 June 1	By Cash: dividend— Income, 150 days .	288	9	3			
Oct. 5	,, Reserve for Income Tax, £350 at 5s. . .	72	2	4	15	7	8		Capital, 32 ,, .				61	10	9
,,	,, Transfer to Income A/c	216	6	11				Oct. 5	,, Transfer to Estate A/c (Income Tax) . .				15	7	8
								,,	,, Balance c/d . .				19,538	9	3
		£288	9	3	19,615	7	8			£288	9	3	19,615	7	8
Oct. 5	To Balance b/d . .				19,538	9	3	Dec. 1	By Cash: dividend— Income, 126 days .	240	19	8			
Dec. 1	,, Reserve for Income Tax, £350 at 5s. . .	60	4	11	27	5	1		Capital, 57 ,, .				109	–	4
,,	,, Transfer to Income A/c	180	14	9				2	,, Value of £20,000 stock at 101 c/d . .				20,200	–	–
,,	,, ,, Estate A/c				81	15	3								
2	,, Estate A/c, appreciation in value . .				661	10	9								
		£240	19	8	20,309	–	4			£240	19	8	20,309	–	4
Dec. 2	To Balance b/d . .				20,200	–	–								

Dr. EXE CO., LTD. CUM. PREF. SHARES 5 *Cr.*

		Income.			Capital.					Income.			Capital.		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1933 Jan. 2	To Estate A/c, 100 shares at £8 . . .				800	–	–	1933 Mch. 31	By Cash: Dividend . .	3	17	10	45	2	2
Oct. 5	,, Transfer to Income A/c	3	17	10				May 29	,, Cash: Proceeds of sale of shares. . .				1,030	10	–
5	,, Transfer to Estate A/c (Profit on realisation)				275	12	2								
		£3	17	10	£1,075	12	2			£3	17	10	£1,075	12	2

Dr. ALPHA CO., LTD. ORD. SHARES 6 *Cr.*

					Capital.								Capital.		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1933 Jan. 2	To Estate A/c, 100 shares at £10 . . .				1,000	–	–	1933 April 30	By Legacies A/c, Secretary				1,000	–	–

Dr. S.S. *DELAWARE* $\frac{8}{64}$THS SHARE 7 Cr.

					Capital.								Capital.		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1933								1933							
Jan. 2	To Estate A/c, $\frac{8}{64}$ths share				850	–	–	Mch. 31	By Cash: Dividend . .				49	–	–
Oct. 5	,, Estate A/c (profit on realisation) . .				99	–	–	,,	,, Cash: Sale of shares .				900	–	–
					£949	–	–						£949	–	–

Dr. BANK DEPOSIT ACCOUNT 8 Cr.

		Income.			Capital.					Income.			Capital.		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1933								1933							
Jan. 2	To Estate A/c—							Mch. 31	By Cash				4,800	–	–
	Balance on deposit .				7,000	–	–	June 30	,, Cash, interest to date .	138	–	–	2	–	–
	Accrued interest .				2	–	–	Oct. 5	,, ,, ,, ,, .	57	10	–			
July 2	,, Cash				1,345	–	–	,,	,, Transfer to Estate A/c. (Tax) . . .					10	–
Oct. 5	,, Reserve for Income Tax, £197 10s. at 5s. .	48	17	6		10	–	,,	,, Balance c/d . .				3,545	–	–
,,	,, Transfer to Income A/c	146	12	6											
		£195	10	–	£8,347	10	–			£195	10	–	£8,347	10	–
Oct. 5	To Balance b/d . .				3,545	–	–	Dec. 1	By Cash, Interest . .				26	12	6
Dec. 1	,, Reserve for Income Tax				6	13	1	,,	,, Transfer to Cash .				3,545	–	–
,,	,, Transfer to Estate A/c.				19	19	5								
					£3,571	12	6						£3,571	12	6

LOAN ON MORTGAGE — 9

Dr.		Income.			Capital.					Income.			Capital.		Cr.
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1933 Jan. 2	To Estate A/c . . .				2,000	–	–	1933 July 2	By Cash: Sale proceeds—						
	" Accrued Interest £50 –								Inc.: $\frac{50}{2,100}$ of £1,890 .	45	–	–			
	Less tax at 5s. 12 10				37	10	–		Cap.: $\frac{2,050}{2,100}$ of £1,890 .				1,845	–	–
Oct. 5	" Reserve for Income Tax, £45 at 5s. . .	11	5	–				Oct. 5	" Transfer to Estate A/c: Loss on realisation .				192	10	–
"	" Transfer to Income A/c	33	15	–											
		£45	–	–	£2,037	10	–			£45	–	–	£2,037	10	–

HOUSEHOLD FURNITURE — 10

Dr.					Capital.								Capital.		Cr.
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1933 Jan. 2	To Estate A/c . . .				£1,100	–	–	1933 Apl. 30	By Legacies A/c (widow) .				£1,100	–	–

		Income.			Capital.					Income.			Capital.		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1933								1933							
Jan. 2	To Estate A/c . . .				900	–	–	Jan. 2	By accrued Ground Rent .				4	–	–
	,, Accrued Rent . .				52	–	–	25	,, Cash, Rent to Xmas .				50	–	–
25	,, Income Tax, Sch. A .	5	1	11	14	18	1	28	,, Tax on Ground Rent .				1	–	–
28	,, Cash: Ground Rent .				4	–	–	July 1	,, ,, ,, ,, .		10	2		9	10
July 1	,, ,, ,, ,, .	4	–	–				July 5	,, Cash, Rent. . .	48	–	–	2	–	–
Oct. 5	,, Transfer to Income A/c	39	8	3				5	,, Cash, Sale proceeds .				1,000	–	–
,,	,, Estate A/c . . .				100	–	–	Oct. 5	,, Transfer, Income Tax Suspense A/c . .				13	8	3
		£48	10	2	£1,070	18	1			£48	10	2	£1,070	18	1

FREEHOLD PROPERTY 12

Dr. | Cr.

Date		Income £	s.	d.	Capital £	s.	d.	Date		Income £	s.	d.	Capital £	s.	d.
1933								1933							
Jan. 2	To Estate A/c . . .				2,400	–	–	July 5	By Cash, Rent. . .	71	14	–			
28	" Income Tax— . .	7	12	10	22	7	2	Oct. 5	" Transfer to Income Tax Suspense A/c . .				22	7	2
Oct. 5	" Transfer to Income A/c	64	1	2				"	" Balance c/d . .				2,400	–	–
		£71	14	–	£2,422	7	2			£71	14	–	£2,422	7	2
Oct. 5	To Balance b/d . .				2,400	–	–	Nov. 1	By Cash, Rent to date— Income, 103 days .	41	4	–			
Dec. 1	" Transfer to Income A/c	41	4	–					Capital, 27 " .				10	16	–
"	" Transfer to Estate A/c, Profit on realisation .				35	16	–	14	" Cash, sale proceeds .				2,425	–	–
		£41	4	–	£2,435	16	–			£41	4	–	£2,435	16	–

DECEASED'S DEBTS ACCOUNT 13

Dr. | Cr.

Date		£	s.	d.	Capital £	s.	d.	Date		£	s.	d.	Capital £	s.	d.
1933								1933							
Feb. 2	To Cash				306	–	–	Jan. 2	By Estate A/c . . .				306	–	–

INCOME TAX SUSPENSE ACCOUNT 14

Dr. Cr.

Date	Particulars	£	s.	d.	Capital £	s.	d.	Date	Particulars	£	s.	d.	Capital £	s.	d.
1933								1933							
Oct. 5	To Transfers to—							Jan. 2	By Estate A/c . .				35	15	5
	Leasehold Property .				13	8	3								
	Freehold Property .				22	7	2								
					£35	15	5						£35	15	5
Dec. 2	„ Balance c/d . .				242	5	7	Oct. 5	„ Reserve for Tax—						
									Mortgage Interest .	11	5	–			
									War Loan . .	87	10	–			
									Deposit Interest	49	7	6	148	2	6
								Dec. 1	„ Reserves for Tax—						
									War Loan . .	87	10	–			
									Deposit Interest .	6	13	1	94	3	1
					£242	5	7						£242	5	7
								Dec. 2	By Balance b/d . .				242	5	7

LEGACIES ACCOUNT 15

Dr. Cr.

Date	Particulars	£	s.	d.	Capital £	s.	d.	Date	Particulars	£	s.	d.	Capital £	s.	d.
1933								1933							
Apl. 30	To Widow:							Oct. 5	By Transfer to Estate A/c.				2,850	–	–
	Household Furniture				1,100	–	–								
„	„ Secretary: Alpha Shares				1,000	–	–								
„	„ Cash: Brother . .				250	–	–								
	Niece . .				500	–	–								
					£2,850	–	–						£2,850	–	–

					Capital.								Capital.		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1933								1933							
Apl. 30	To Cash: Duties—							Oct. 5	By Transfer to Estate A/c.				154	–	–
	Widow, 1% on £1,100	11	–	–											
	Brother, 5% on £250 .	12	10	–											
	Niece, 5% on £500 .	25	–	–											
	Secretary, 10% on £1,000	100	–	–											
					148	10	–								
July 1	To Cash: Duty— Widow, 1% on £300				3	–	–								
Sept. 30	To Cash: Duty— Widow, 1% on £250				2	10	–								
					£154	–	–						£154	–	–

BALANCE SHEET AS AT 5TH OCTOBER, 1933

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
Estate Account	35,998	3	11	**Cash at Bank**	687	14	7
Income Account	90	12	1	„ on Deposit	3,545	–	–
Income Tax Suspense Account . . .	148	2	6	£14,000 2½% Consols	10,065	14	8
				£20,000 3½% War Loan. . . .	19,538	9	3
				Freehold Property.	2,400	–	–
	£36,236	18	6		£36,236	18	6

FINAL BALANCE SHEET AS AT 2ND DECEMBER, 1933

Showing the Distribution of Assets

Liabilities.	£	s.	d.	£	s.	d.
Income A/c payable to Widow's Executors				312	10	10
Estate A/c	32,796	3	5			
Less Legacy Duty on Widow's Income, 1% on £312 10s. 10d. .	3	2	6			
Divisible Residue . . .	32,793	–	11			
Residuary Legatees—						
Niece, one-fourth	8,198	5	3			
Legacy Duty 5% . . .	409	18	3			
				7,788	7	–
Mayville Hospital $\frac{3}{8}$ths . . .	12,297	7	10			
Legacy Duty 10% . . .	1,229	14	9			
				11,067	13	1
Mayville Orphanage . . .	12,297	7	10			
Legacy Duty 10% . . .	1,229	14	9			
				11,067	13	1
Inland Revenue—						
Unpaid Income Tax . . .				242	5	7
Legacy Duties:						
Widow	3	2	6			
Niece	409	18	3			
Mayville Hospital . . .	1,229	14	9			
Mayville Orphanage . .	1,229	14	9			
				2,872	10	3
			£	33,350	19	10

Assets.	£	s.	d.	£	s.	d.
Cash—						
Widow's Executors (free of Duty)	312	10	10			
Niece (*less* Duty)	888	7	–			
Mayville Hospital (*less* Duty) .	717	13	1			
Mayville Orphanage (*less* Duty)	717	13	1			
Inland Revenue—						
Income Tax	242	5	7			
Legacy Duty . . .	2,872	10	3			
				5,750	19	10
Consols—						
Niece $\frac{1}{4}$th	1,850	–	–			
Mayville Hospital $\frac{3}{8}$ths . .	2,775	–	–			
Mayville Orphanage $\frac{3}{8}$ths . .	2,775	–	–			
				7,400	–	–
War Loan—						
Niece $\frac{1}{4}$th.	5,050	–	–			
Mayville Hospital $\frac{3}{8}$ths . .	7,575	–	–			
Mayville Orphanage $\frac{3}{8}$ths . .	7,575	–	–			
				20,200	–	–
			£	33,350	19	10

Note. After payment of widow's £312 10s. 10d., £3 2s. 6d., and income tax £242 5s. 7d., the Cash balance is £5,193 0s. 11d. The niece gets one-fourth of £5,193 0s. 11d. *less* duty £409 18s. 3d.; while the hospital and orphanage each gets three-eighths of £5,193 0s. 11d. *less* duty £1,229 14s. 9d.

RESIDUARY ACCOUNT. 2ND DECEMBER, 1933.

Receipts.	Money received and property converted into money. £	s.	d.	Value of property not converted into money. £	s.	d.
2½% Consols (left by deceased)—						
£10,000 stock at market price, 74% . . .				7,400	–	–
2,000 „ sold 14th Nov., at 73% . .	1,456	3	–			
2½% Consols (purchased by executors)—						
£2,000 Stock, sold 14th Nov. at 73% . .	1,456	3	–			
3½% War Loan (left by deceased)—						
£20,000 Stock at market price, 101% . .				20,200	–	–
Exe Co., Ltd., 100 Cum. Pref. Shares of £10 each, sold 29th May, realised	1,030	10	–			
Alpha Co., Ltd., 100 Ordinary Shares of £5 each, specifically bequeathed to secretary—as valued for probate				1,000	–	–
S.S. *Delaware*, $\frac{8}{64}$th share, sold 31st March for .	900	–	–			
Cash in the house at date of death . . .	13	10	–			
„ at Bankers „ „	475	12	6			
„ on Deposit „ „	7,000	–	–			
Loan on Mortgage realised	1,845	–	–			
Household Furniture (specifically bequeathed to widow) at probate valuation				1,100	–	–
Leasehold Property, sold 5th July for . . .	1,000	–	–			
Freehold „ „ 14th Nov. for . .	2,425	–	–			
Interest, Dividends, Rents, etc., on property accrued to date of death—						
2½% Consols: Stock	54	8	4			
3½% War Loan	61	10	9			
Exe Co. Shares	45	2	2			
S.S. *Delaware*	49	–	–			
Bank Deposit	2	–	–			
Leasehold Property	52	–	–			
Interest, Dividends, Rents, etc., on property from date of death of life-tenant (5th Oct.) to date of closing the estate—						
3½% War Loan	109	–	4			
Bank Deposit	26	12	6			
Freehold Property	10	16	–			
Transfer total of 1st column to 2nd column . .				18,012	8	7
				47,712	8	7
Payments.						
Estate Duty at death of testator—						
Personalty	5,476	2	8			
Realty	312	–	–			
Carried forward . .	5,788	2	8	47,712	8	7

RESIDUARY ACCOUNT. 2nd December, 1933—*Continued.*

Receipts.							Money received and property converted into money. £	s.	d.	Value of property not converted into money. £	s.	d.
Brought forward							5,788	2	8	47,712	8	7
Payments.												
Funeral Expenses							57	–	–			
Executorship Expenses							58	12	6			
Debts due at death—												
Personal Accounts							306	–	–			
Ground Rent							4	–	–			
Income Tax, Sch. A, on leasehold and freehold property							35	15	5			
Legacies and Duties thereon—	*Legacy.* £	s.	d.	*Duty.* £	s.	d.						
Widow (Furniture)	1,100	–	–	11	–	–						
Secretary (Shares)	1,000	–	–	100	–	–						
Brother	250	–	–	12	10	–						
Niece	500	–	–	25	–	–						
Duty on payments to life-tenant				5	10	–						
	£2,850	–	–	£154	–	–	3,004	–	–			
Investments purchased by executors—												
£2,000 Consols, at 71%, cost							1,423	18	–			
Estate Duty on death of life-tenant—												
Personalty							4,031	15	8			
Realty							144	–	–			
Interest							13	5	1			
Reserve for unpaid income tax—												
on 3½% War Loan Dividends							42	12	9			
on Bank Deposit Interest							7	3	1			
										14,916	5	2
Net amount of property on Capital Account*									£	32,796	3	5
Interest, Dividends, Rents, etc., received on account of income; from 2nd Jan. to 5th Oct. (date of death of life-tenant)—												
2½% Consols							189	6	8			
3½% War Loan							529	8	11			
Exe Co., Ltd., Shares							3	17	10			
Bank Deposit							195	10	–			
Mortgage Interest							45	–	–			
Leasehold Property							48	–	–			
Freehold Property							112	18	–			
Carried forward							1,124	1	5			

* Agrees with amount shown on final Balance Sheet on p. 1079, and also with balance of Estate Account on p. 1069.

RESIDUARY ACCOUNT. 2ND DECEMBER, 1933—*Continued.*

RECEIPTS.				Money received and property converted into money.			Value of property not converted into money.		
				£	s.	d.	£	s.	d.
Brought forward				1,124	1	5			
Payments.	£	s.	d.						
Interest on Estate Duty at testator's death	52	16	3						
Payments to widow on account	550	–	–						
Ground Rent	4	–	–						
Income Tax, Sch. A—									
on Leasehold Property	4	11	9						
„ Freehold Property	7	12	10						
Reserve for unpaid Income Tax—									
on War Loan	132	7	3						
„ Deposit Interest	48	17	6						
„ Mortgage Interest	11	5	–						
				811	10	7			
Net income to date of death of life-tenant, payable to widow's executors*				£312	10	10			

NOTE.—The income being left to the life-tenant free of all duties, the legacy duty thereon is a charge against capital.
The final distribution and apportionment is shown on page 1079.

QUESTIONS ON CHAPTER XXVII.

1. Define Executorship Accounts. What is the distinction between an executor and an administrator? What are the duties of executors and administrators?

2. Define Probate and Letters of Administration. In what circumstances are letters of administration granted?

3. What is Estate Duty and when is it levied? Define (i) gifts *inter vivos* and (ii) *donationes mortis causa*; and state how they are dealt with in relation to estate duty. What concessions are available, (i) by way of marginal relief (ii) where land or business again become liable to estate duty within five years, and (iii) small estates?

4. Outline the method of preparation of an Estate Duty Account. What is a corrective affidavit and what purpose does it serve?

5. Define apportionment. Why is apportionment necessary in Executorship Accounts? What are the statutory provisions relating to apportionment? What expenses are chargeable to capital and what to income?

6. What are equitable apportionments? Discuss the rules in *Howe* v. *Lord Dartmouth* and the Earl of Chesterfield's Trusts. How is a loss on the realisation of a mortgage security dealt with? Discuss the rule laid down in *Allhusen* v. *Whittell* and its modification in *re McEuen*.

7. Define a legacy and distinguish between general, demonstrative and specific legacies. What is the distinction between a contingent and a vested

* Agrees with amount shown on final Balance Sheet on p. 1079, and also with balance of Income Account on p. 1069.

legacy? When are legacies said to lapse, or be adeemed? What is meant by the executor's year.

8. When are legacy and succession duties payable and by whom? Is legacy duty payable on either gifts *inter vivos* or *donationes mortis causa*? Define abatement and state how it is applied in the event of the assets being insufficient to pay all the legacies in full. What is a Residuary Account?

9. What are the principal rules relating to the distribution of intestate person's estates. What is the widow's right and how far does this right extend? Define Hotchpot, and state how it is applied.

10. What books should be kept by an executor? Discuss the nature of the entries in the Estate Account and the Income Account. How is the balance of these accounts dealt with? Discuss the respective merits of the "complete" method and the "cash" method of keeping Executorship Accounts.

ANSWERS

EXERCISE I

(1) (*b*) Profit on Exchange £5. (2) To find the *gross* amounts, add on $\frac{1}{3}$, $\frac{1}{7}$, $\frac{1}{4}$, $\frac{3}{37}$, $\frac{1}{18}$, and $\frac{1}{4}$ respectively. (3) Discount = £4 6s. 8d., Commission = £4 10s. (4) Bank Balance as per Pass Book, £205 15s. 5d., *plus* 3 Cheques not cleared, £391 11s. 3d. *less* 2 Cheques not presented, £142 5s. 6d. = Bank Balance as per Cash Book, £455 1s. 2d.

EXERCISE II

Gross Profit	*Net Profit*	*Total of Balance Sheet*	*Capital Accounts on Balance Sheet*
(1) £19,484	£5,419 2s.	£27,372	Brown £7,215 9s.; Phillips £6,954 11s.;
		Trial Balance, £211,240	
(2) £10,310	£350 14s.	£60,891 4s.	Wolfe £23,051 7s.; Harvey £19,423 17s.
(3) £2,535 19s. 9d.	£417 5s. (loss)	£20,144 13s. 10d.	
(4) £5,873 0s. 10d.	£1,318 11s. 10d.	£36,986 1s. 10d.	Rice £20,279 1s. 3d.; Baxter £9,937 0s. 7d.
(5) £5,622	£856	£38,616	
(6) £5,750 18s. 4d.	£954 16s. 4d.	£21,431 18s. 4d.	Lewis £6,919 11s. 6d.; Smithers £5,558 6s. 10d.
(7) £18,592	£11,057 14s.	£34,841	Rocklyn £16,110 17s.; Farmley £15,650 3s.
(8) £11,242	£3,050 12s.	£44,175 12s.	£27,215 12s.
(9) £1,946 7s. 5d.	£500 (loss)	£11,566 11s. 7d.	W. Price £5,334 16s. 6d.; E. Ackworth £3,271 15s. 0d.
(10) £7,042	£1,214 5s. 9d.	£26,972 16s. 9d.	Perry £9,672 11s. 6d.; Ruston £7,781 14s. 3d.
(11) £15,890	£3,753 9s.	£44,391	Kingsley £22,990 6s.; Larke £11,523 3s.
(12) £5,860	£1,329 4s.	£31,639 4s.	Ramsden £12,379 12s.; Brookes £7,267 12s.
(13) £9,000	£4,545 15s.	£19,795 11s.	
(14) £14,650	£8,710	£27,160	A £12,984; B £12,984; C £192
(15) £7,610	£688	£25,692	£8,994 each partner
		Trial Balance, £61,784;	Capital, £9,000 each.
(16) £9,010 5s. 3d.	£4,311 10s. 7d.	£45,316 7s. 1d.	Oakley £10,726 11s. 8d.; Denham £9,961 11s. 8d.
(17) £12,368 16s. 2d.	£3,116 2s. 11d.	£47,172 8s.	Smith £17,189 17s. 4d.; Thompson £14,228 12s. 11d.
(18) £8,089 17s.	£5,979 18s. 2d.	£12,710 5s. 10d.	Shepherd £6,779 19s. 1d.; Elkington £3,781 16s. 7d.
	(Interest on Drawings: Shepherd £10, Elkington £8 2s. 6d.)		
(19) £9,600 5s. 5d.	£1,550 16s. 10d.	£30,196 11s. 11d.	Green £9,416 19s.; Richards £8,366 18s. 11d.; Everitt £6,266 18s. 11d.

(NOTES. (1) Profit, by law, divisible equally in absence of agreement to the contrary. (2) Consignment A/c balance treated as a loss. (3) Both Reserves treated as New Reserves.)

(20) £3,100	£1,087 18s. 4d.	£9,045	£5,815
(21) £6,425	£3,650	£30,670	Black £6,525; White £3,575
(22) £9,537	£6,276 12s. 6d.	£25,423	Wilson £9,929 11s. 3d.; Bookman £7,530 8s. 9d.
(23) £4,734	£1,849 2s.	£20,410 12s.	Slander £9,748 11s.; Backbite £7,512 11s.
(24) £15,311	£8,664 11s. 6d.	£35,950 11s. 6d.	£27,864 11s. 6d.

EXERCISE III

(2) v Interest £2 13s. 4d., Bill Stamp 5s.; vi Interest £3 10s., Bill Stamp 4s.; ix Interest £26 7s. 6d. (3) (*a*) Discount £1 1s. 11d.; (*b*) Discount £1 7s.; (*c*) Discount £1 1s. 6d. (4) Debit balance of Darlowe & Walsh's account £114 1s. 7d. (5) (*a*) Bill

Stamp 2s., due date 4th April. (6) 30th June: Cash £112 10s., Bad Debts £337 10s. (7) Make a Reserve of £500. (8) Debit balance of A's account £3,552 10s. (9) Total of Bills Receivable Book £874 1s. 1d.; total of Bills Payable Book £1,033 14s. 10d. (10) (*a*) Interest 19s. 10d., Bill Stamp 2s.; (*b*) Interest £3 2s. 10d., Bill Stamp 3s. (12) Bankers' Discount £1 5s. 0d. (Tenor of bill taken at 3 months.)

EXERCISE IV

(1) Balance of Interest *Cr.* 16s. 8d.; by days 15s. 7d.; Balance of A/c *Cr.* 16s. 8d. or 15s. 7d. (2) Balance of Interest *Dr.* £11 10s. 6d., Balance of A/c *Dr.* £361 10s. 6d. (3) By *Months*, Balance of Interest *Dr.* £1 5s., Balance of A/c *Dr.* £21 5s.; By *Days*, Balance of Interest *Dr.* £1 4s. 4d., Balance of A/c *Dr.* £21 4s. 4d. (4) Balance of Interest *Dr.* 13s. 2d.; Balance of A/c *Dr.* £22 13s. 5d. (5) Balance of Interest *Cr.* 2s. 11d., Balance of A/c *Dr.* £95 10s. 11d. (6) Balance of Interest *Cr.* £3 4s. 2d., Balance of A/c *Cr.* £178 0s. 4d. (7) Balance of Interest *Dr.* 15s., Cheque in settlement *Dr.* £255 19s. 9d. (8) Balance of Interest *Dr.* £1 3s. 8d., Balance of A/c *Cr.* £93 0s. 4d. (9) Balance of Interest *Dr.* £3 12s. 1d., Balance of A/c *Dr.* £146 14s. (10) Balance of Interest *Dr.* 13s. 5d., Balance of A/c *Cr.* £172 4s. 11d. (11) Interest *Dr.* £9 13s. 7d., Total of A/c *Dr.* £399 13s. 7d. (12) Balance of Interest *Dr.* £1 6s. 4d., Balance of A/c *Dr.* £36 5s. 10d. (13) Balance of Interest *Cr.* £8 14s. 11d., Balance of A/c *Dr.* £188 13s. 11d. (14) 27th July. (15) 11th July. (16) 20th Sept. (17) 22nd Oct. (18) Interest *Dr.* £7 0s. 7d., Total of A/c *Dr.* £304 0s. 7d. (19) Elliott must pay Pine £150 12s. 11d. on 1st Nov. (20) Balance of Interest *Cr.* £61 12s. 8d., Final Payment *Dr.* £1,811 12s. 8d.

EXERCISE V

(1) Net Profit £149. (2) A/c Sales £1,729 8s. 6d.; Net Profit £710 9s. 6d. (3) Net Profit £88. (4) A/c Sales total Rs. 5,680 = £437 16s. 8d. (12 pies = 1 anna, 16 annas = 1 rupee); Net Profit = £48 4s. 2d. (5) Consignment A/c (total) *Dr.* to each of the items mentioned. (6) In Johnson's books, Loss on Consignment = £5 8s. 11d. (7) Net Loss on Consignment £53 2s. 1d. (8) Profit £68 5s., C's share £22 15s.; D's share £45 10s. (9) Profit on Joint A/c £586. (10) Net Profit on Joint A/c £27 2s. 3d. (11) Proceeds of Consignment in our books = £812 18s. 2d. (£750 2s. 9d. + £62 15s. 5d.). (12) Hansard Estate A/c *Dr.* side (8 items) £4,137 0s. 10d.; *Cr.* side (2 items) £1,355 18s. 3d.; Shirley's A/c *Dr.* £950 15s. (13) Net Profit £500; Total of Balance Sheet £26,500; Capital A/cs: James £2,050, Edwards £4,100, Morrison £8,200, Peters £6,150. (14) Profit on consignment £125 15s. (15) Profit on Consignment £39 15s. 5d. (16) Net Profit £134 3s. 4d. (17) Loss on Joint A/c £10 7s. 3d. (18) Cash Balance £480. (19) Profit on Consignment £365; L. R. owes J. M. £615. (20) Total Loss £3,100. (21) New bill £578 17s. 2d. (£562 + £16 17s. 2d. Int.). (22) Total of A/c Sales £254 17s. 1d. (23) Sight-draft = £738 11s. 5d. (24) Net Profit = £155 12s. 5d. (25) Profit on Venture £143 9s. 6d.; Day owes Robson £748 19s. 4d. (26) Profit on Consignment £131 9s. 4d.; Bailey & Co.'s A/c *Dr.* £545 12s. 8d. (27) Net Loss £124 4s. (28) Profit on Venture £268 11s. 6d.; Amount due to Tohm £579 4s. 10d.; Amount due to Friedley £387 11s. 3d.; Cash balance £966 16s. 1d. (29) Net Profit £162 12s. 4d. (30) Profit on Venture £1,960.

EXERCISE VI

(4) Balance £13,740. (7) Sales Ledger Trial Balance £459 3s. 4d. (8) Balance £38,702 6s. 9d. (9) Total of Bought Ledger Trial Balance £741 19s. 10d. (10) Total of Bought Ledger Trial Balance £1,153 19s. 7d. (11) Total of Sales Ledger Trial Balance £725 1s. 6d. (12) Total of Sales Ledger Trial Balance £1,167 17s. 10d. (13) Bought Ledger Trial Balance £1,479; Sales Ledger Trial Balance £2,223; General Ledger Trial Balance £11,735; Gross Profit £1,019; Net Profit £346 7s. 6d.; Balance Sheet £9,863 10s.; Capital A/cs: Graham £4,129 15s., Winder £4,129 15s. (14) Trial Balance totals: Bought Ledger £1,552 15s. 3d.; Sales Ledger £1,269 18s. 1d.; General Ledger £7,804 19s. 8d. (15) Trial Balance totals: Bought Ledger £614 10s. 4d.; Sales Ledger £831 13s. 1d.; General Ledger £6,355 4s. (16) Trial Balance totals: Bought Ledger £2,458 1s. 4d.; Sales Ledger £3,326 12s. 4d.; General Ledger £25,420 16s.

EXERCISE VII

(1) (*a*) P. & L. *Dr.* £630 10s. 6d. and £92 13s. 4d.; (*b*) P. & L. *Dr.* £723 3s. 10d. (2) (*a*) P. & L. *Dr.* £727 14s. 2d. and £105 13s.; (*b*) P. & L. *Dr.* £833 7s. 2d. (3) (*a*) P. & L. *Dr.* £327 16s. 9d. and £548 12s. 10d.; (*b*) P. & L. *Dr.* £876 9s. 7d. (4) (*a*) P. & L. *Dr.* £62 15s. 10d. and *Cr.* £77 9s. 11d.; (*b*) P. & L. *Cr.* £14 14s. 1d. (5)

(*a* and *b*) P. & L. *Cr.* £58 10s. 6d. (6) (*a*) P. & L. *Dr.* £27 10s. 4d.; B/S Sundry Drs. £2,806 15s. 5d. *less* Reserve £147 13s. 8d.; (*b*) P. & L. nil; B/S Sundry Drs. £2,806 15s. 5d. *less* Reserve £120 3s. 4d. (7) (*a*) P. & L. *Dr.* £163 17s. 8d. and £31 8s.; (*b*) P. & L. *Dr.* £195 5s. 8d. (8) (*a*) P. & L. *Dr.* £126 13s. 3d. and £78 6s. 8d.; (*b*) P. & L. *Dr.* £204 19s. 11d. (9) (*a*) P. & L. *Dr.* £56 9s. 9d. and *Cr.* £109 17s. 5d.; (*b*) P. & L. *Cr.* £53 7s. 8d. (10) (*a*) P. & L. *Cr.* £110 16s. 6d. and £3 3s. 5d.; (*b*) P. & L. *Cr.* £113 19s. 11d. (11) (*a*) P. & L. *Cr.* £187 16s. 5d. and £4 19s. 9d.; (*b*) P. & L. *Cr.* £192 16s. 2d. (12) (*a*) P. & L. *Cr.* £57 12s. 2d., and *Dr.* £23 19s. 4d.; (*b*) P. & L. *Cr.* £33 12s. 10d.

EXERCISE VIII

(2) Surplus of Income over Expenditure £298; Balance Sheet total £1,315 10s. (Cash in hand £315 10s.; Capital A/c £1,298). (3) Surplus of Income over Expenditure £130. (4) Surplus of Revenue A/c £334 15s.; Balance Sheet total £1,717 15s.; Capital A/c £650 7s. 6d. (5) Surplus of Income and Expenditure A/c £545 12s. 9d.; B/S total £97,089 7s. 7d.; Capital A/c £88,573 16s. (6) Net Profit £15,406 13s. 4d.; Dividend of £240 14s. 7d. per share. (7) Revenue A/c *Cr.* balance £6,247 11s. 4d.; Net Revenue *Cr.* £3,397 11s. 4d.; B/S £55,231 7s. 6d. (8) Income and Expenditure A/c Deficit £43 13s. 6d.; B/S £7,437 3s.; Capital A/c £6,437 3s. (9) Surplus £574 12s. 6d.; B/S £4,728 7s. 2d. (10) Net Profit £3,248 4s 4d. (11) Surplus £230 18s. 7d.; B/S £1,963 17s. 4d.; Capital A/c £1,488 14s. (12) Net Profit £8,697 10s. 10d.; Dividend to Owners £142 18s. 11d. per share. (13) (*a*) Heading should be Income and Expenditure A/c; (*b*) Income and Expenditure on wrong sides; (*c*) Furniture should be capitalised, only depreciation charged as expenditure; (*d*) Stocks of Stationery, Provisions, Clothing, etc., on hand should be deducted; (*e*) Sundry profits and Interest should be more fully explained; (*f*) Loss should be *last* item on *credit* side; (*g*) Extraordinary expenditure should be spread over 3 to 5 years; (*h*) Account would in latter case show a surplus; (*i*) If Band Expenses includes cost of instruments, the latter should be treated as an asset. (14) Surplus £210 9s. 5d. (15) Profit £530 11s. 2d. (16) Revenue A/c *Cr.* balance £26,217 7s. 9d.; Net Revenue A/c *Cr.* balance £23,661 3s. 10d.; B/S £198,167 8s. 11d. (17) Balance of Cash in hand and at Bank £273 5s. 5d.

EXERCISE IX

(3) Gross Profit: Linoleum Dept. £6,825 2s. 4d., Carpet Dept. £3,368 6s. 7d.; Net Profit: Linoleum Dept. £2,974 19s. 8d., Carpet Dept. £1,443 5s. 3d.; if decimalized, proportions of expenses are 3 and 6 = ⅜ and ⅝ or ⅔ and ⅓; inspection of figures in £ s. d. shows at once, however, that the departmental turnovers are two-thirds and one-third of the total Sales respectively. (4) A Dept.: Gross Profit £18,256 16s. 1d., Net £7,436 3s. 3d.; B Dept.: Gross Profit £11,819 9s. 1d., Net £6,485 19s. 1d.; Percentages of Gross Profit on Turnover: A Dept. 22·52, B Dept. 25·19; Percentages of Net Profit on Turnover: A Dept. 9·17, B Dept. 13·82. (5) Departmental Profits: No. 1 £151 11s. 8d., No. 2 £173 3s. 1d., No. 3 £195 4s. 7d., No. 4 £221 8s. 5d., No. 5 £256 19s. 11d.; Net Profit £902 2s. 8d.; B/S £6,399 12s. 6d.; Capital A/cs £2,124 3s. 10d. each. (6) A Dept.: Gross Profit £26,080 3s. 11d., Net £10,931 9s. 8d.; B Dept.: Gross Profit £15,660 12s. 2d., Net £5561, 9s. 6d. (7) Hair Cream: Gross Profit £4,621 18s. 6d., Net £3,582 11s. 9d.; Tooth Powder: Gross Profit £9,730 4s. 3d., Net £2,898 8s. 10d. (8) Gross Profits: Motor Cars £3,225, Accessories £858 6s. 7d., Repairs £89 16s. 2d., Hire Cars £144 3s. 4d.; Net Profit £3,324 1s. 4d. (9) No. 1 Dept.: Gross Profit £44,829 5s., Net £15,763 11s. 8d.; No. 2 Dept.: Gross Profit £22,831 5s. 10d., Net £8,222 2s. 8d.; Net Profit £17,983 12s. 6d.; B/S £156,911 8s.; Capital A/cs: Smith £55,534 4s. 8d., Brown £41,202 17s., Johnson £35,710 12s. 10d. (10) Departmental Profits: A £258 3s. 8d., B £359 6s., C £352 4s. 10d., D £253 11s. 10d., E £268 5s. 4d.; Net Profit £1,316 11s. 8d.; B/S £10,888 1s. 2d.; Capital A/cs £3,745 15s. 10d. each. (11) X Dept.: Gross Profit £54,201 5s., Net £15,025 7s.; Y Dept.: Gross Profit £33,495 14s. 6d., Net £7,378 9s. 2d. (12) Fish paste: Gross Profit £11,676 13s. 8d., Net £2,023 12s. 4d.; Sauce: Gross Profit £4,906 9s. 6d., Net £3,229 4s. 6d. (13) Gross Profits: Motor Cars £4,500, Accessories £1,470 17s. 8d., Repairs £150 9s. 8d., Hire Cars £100 6s. 2d.; Net Profit £4,395 13s. 4d. (14) Pledged Goods: Gross Profit £1,190 11s. 3d.; Goods for Re-sale: Gross Profit £520 9s. 10d.; Net Profit £626 10s. 3d.; B/S £7,966 19s. 11d., Capital A/c £7,627 6s. 5d. (15) Gross Profits: Engine Dept. £2,529 12s. 5d., Repairs Dept. £2,109 5s. 9d.; Net Profit £2,942 2s. 10d. (16) Works Dept.: Gross Trading Profit £4,663 17s. 10d., Net £2,849 14s. 3d.; Retail Dept.: Gross Trading Profit £6,835 2s. 1d., Net £4,808 2s. 4d.: Net Profit £7,451 3s. 7d.

EXERCISE X

(2) Balance of Drawings A/c transferred to credit of Capital A/c £177 1s. 8d. (3) Total of Balance Sheet £8,020; Capital A/cs: A £2,760, B £2,760, C £1,000. (4) Partner's proportions of profit: Dickson $\frac{28}{59}$, Bell $\frac{21}{59}$, Peters $\frac{10}{59}$. (5) Gross Profit £6,425; Net Profit £3,650; Balance Sheet total £30,670; Capital A/cs: Black £6,525, White £3,575. (6) Gross Profit £11,306; Net Loss £5,620; B/S £85,810; Capital A/cs: Lion £55,310, Unicorn £26,640. (7) Gross Profit £2,748; Net Profit £1,023 5s.; B/S £6,217; Capital A/cs: James £3,256 7s. 4d., Jones £2,112 12s. 8d. (8) Debit Capital A/cs and credit P. & L. Adjustment A/c with incorrect shares of profit; debit P. & L. Adjustment A/c with Interest on Capital £220, and credit partners' Capital A/cs (£110, £90, and £20); divide balance of P. & L. Adjustment A/c between partners, viz. X £690, Y £345, Z £345. (9) Total of Balance Sheet £17,534 16s. 10d. (10) Shares of profit: Aplin $\frac{12}{25}$, Charles $\frac{8}{25}$, Paton $\frac{5}{25}$ or $\frac{1}{5}$. (11) Cash Book *Dr.* £1,500. (12) Cash Book *Dr.* £1,800, *Cr.* £240. (13) Cash Book *Dr.* £1,800. (14) Cash Book *Dr.* £2,300, *Cr.* £300. (15) Total of Balance Sheet £14,479; Capital A/cs: Dean £5,376, Gibson £5,376, Fir £2,150. (16) Goodwill on Purchase Price = £4,460; after adjustments = £4,868 (4460 + 200 + 200 + 8); total of Balance Sheet £31,218. (17) Balance due to P. Crew's representatives £7,955 16s. (18) Sixth year, last instalment £80 2s. 10d. (19) Final payment £701 1s. (20) Net Loss £1,295; Capital A/cs: Rostron £2,281 10s., Teale £178 10s. (21) Net Profit £1,314; Capital A/cs: Cowan £6,879 10s., Bennett £6,740 10s. (22) (*a*) Net Profit £1,758 15s.; Capital A/cs: Austin £7,316 5s., Bell £4,877 10s., Cooper £4,877 10s.; (*b*) Peters must bring in £2,438 15s. for one-eighth share. (23) Net Profit £1,080 11s. 3d.; Capital A/cs: Fisher £3,851 8s. 9d.; Green £3,851 8s. 9d., Gray *Dr.* £251 17s. 6d. (24) A and B each pay in £3,500. B pays A separately the amount for Goodwill. (25) Capital A/cs: Mason, £27,430, Box £5,962 10s. (26) A will receive £1,260, B £708 15s., C £551 5s. (27) Journal entry: Credit each partner's Capital A/c with his proper interest, and debit the partner's Capital A/cs with the total (£1,200) in the same proportion as they share profits. (28) X $\frac{1}{2}$, Y $\frac{5}{16}$, Z $\frac{3}{16}$. (29) (*a*) £2,572 10s.; (*b*) £4,590. (30) Goodwill A/c: 1st payment £349 15s., 2nd £407 17s. 3d., 3rd £441 7s. 7d., 4th £562 16s. 6d., 5th £238 3s. 8d. (31) Cox will receive £800, Mason £600, Holding £360. (32) By the Partnership Act, partners are not entitled to Interest on Capital before ascertainment of profits but are entitled to 5 per cent Interest on Advances; they are also equal partners if there is no agreement to the contrary; Carus's Interest on Loan (10 months) = £41 13s. 4d.; Net Profit £2,718 6s. 8d., half to each partner. (33) Net Profit £662; Capital A/cs: Hart £3,545 13s. 4d., Capper £2,816 13s. 4d., Bonar £2,047 13s. 4d. (34) Net Credit to Flynn £599; Debit Bartle $\frac{3}{5}$ = £359 8s.; Debit West $\frac{2}{5}$ = £239 12s. (35) Brown's Capital £2,000, eldest son's Capital £4,000, four children each £1,000 Capital. (36) (*a*) Credit M and N with equal moities of Goodwill, and (*b*) allow, say, 5 per cent per annum on the Partner's capital. (37) Total of Balance Sheet £9,000, Capitals: A £3,000, B £2,000, C £1,000.

EXERCISE XI

(1) Profit on Realization £373; Black £3,236 10s.; White £1,146 10s. (2) Loss on Realization £750; Black receives £2,525, White £825. (3) White receives £5,625; Black's Capital A/c *Cr.* £3,275, Goodwill A/c *Dr.* £1,800. (4) (*a*) Robinson £3,120, Larkin £2,760, Sparrow £2,150; (*b*) Robinson £3,195, Larkin £2,820, Sparrow £2,195; (*c*) Robinson £2,079 6s. 8d., Larkin £1,719 6s. 8d., Sparrow £1,109 6s. 8d. (5) Loss on Realization £3,020; Hawker £1,284, Haigh £196 balance of Loan A/c. (6) Loss on Realization £635; Rogers £8,119, Hawley £5,246. (7) Creditors £6,230, Loan £650, Linton £3,860, Price £3,088, Westerby £2,316. (8) Wood £4,768, Harrison £3,326, Batty £2,384. (9) Capital A/cs: Partridge *Cr.* £2,380, Paterson *Dr.* £360. (10) Creditors £4,520, Loan £1,500, Finchley £5,710, Williams £1,930. (11) *Garner* v. *Murray* ruling must be applied. Solvent partners will bear balance of Z's deficiency in proportion to their last agreed Capitals, viz. X $\frac{6}{11}$ of £330, and Y $\frac{5}{11}$ of £330. Profit on Realization £520. X receives £6,080, Y £5,006. (12) Loss on Realization £1,140: X and Y bear Z's deficiency £450, $\frac{3}{5}$ and $\frac{2}{5}$ respectively; X receives £5,760 and Y £3,840. (13) Profit on Realization £1,500; Loss occasioned by the insolvent partner's default, £250, is borne $\frac{5}{9}$ by A and $\frac{4}{9}$ by B; A receives £5,611 2s. 3d., B receives £4,388 17s. 9d. (14) Hawker receives £1,400, and thus bears the whole of the loss caused by Temple's default; which shows the injustice of the *Garner* v. *Murray* ruling in extreme cases. (15) (*a*) They must pay their deficits, and Hawkins will receive £1,500; (*b*) Hawkins will receive £1,000, and

whatever sums he can obtain from Templar and Joyce; (*c*) Hawkins will receive £1,000, and bear the whole of the loss caused by the insolvent partners' default. (16) Loss on Realization £900; loss caused by Robinson's default, £433 6s. 8d. (£500 + £150 *less* Cash £216 13s. 4d.), is borne $\frac{25}{40}$ by Brown and $\frac{15}{40}$ by Jones; Brown receives £2,500 and £279 3s. 4d., and Jones receives £1,500 and £37 10s. (17) Creditors receive a dividend of 15s. 4d. in the £ on £12,000. (18) Profit on Realization £576; Wyatt receives £6,288, Dawson receives £4,288.

EXERCISE XII

(1) Balance Sheet total £280,000. (2) B/S £309,000. (3) B/S £80,000. (4) B/S £200,000. (5) B/S £225,000. (6) B/S £80,000. (7) B/S £88,000. (8) B/S £80,000. (9) Cash received on allotment £48,125; Cash balance £75,000. (10) B/S £100,037 10s. (11) Application A/c £50,000 including £25,000 Premium; Allotment A/c £75,000. (12) O.S. Capital £20,000 *less* Calls in Arrear £3,800 = £16,200; P.S. Capital £22,000 *less* Calls in Arrear £3,500 = £18,500; Cash balance £34,700. (13) B/S £41,958. (15) Gross Profit £6,225; Net Profit £2,956; Approp. A/c £1,956; B/S £28,518; Unpaid or Unclaimed Dividends are a liability and appear on Balance Sheet only—not in Profit and Loss A/c or Approp. A/c.

	Gross Profit	*Net Profit*	*Approp. A/c Balance*	*Bal. Sheet total*
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
(16)	5,171 – –	3,012 – –	—	7,800 – –
(17)	36,150 – –	18,261 10 –	14,685 7 –	136,261 10 –
(18)	3,344 3 3	1,928 11 10	2,115 19 –	12,060 4 1
(19)	7,978 – –	872 – –	—	85,631 – –
	(Cost of Issue of Debentures shown on Assets side of Balance Sheet.)			
(20)	11,582 – –	2,843 – –	4,891 – –	52,414 – –
(21)	11,366 – –	5,507 – –	4,007 – –	61,240 – –
(22)	5,850 9 –	1,210 10 –	715 – –	43,321 10 –
(23)	18,188 – –	7,328 – –	—	89,133 – –
	£117,214 19s. 9d.			
(24)	16,515 – 8	3,048 18 5	1,600 9 8	79,319 10 5
	(Three months' Pref. Div. due = $\frac{1}{4}$ of £1,500 = £375; Patents have 12 more years to run, write off $\frac{1}{12}$)			
(25)	13,324 – –	6,060 – –	7,168 – –	73,507 – –
(26)	2,939 4 2	829 7 6	545 17 7	17,666 2 1
	(Treat Bad Debts A/c *Cr.* as balance of Old Reserve.)			
(27)	10,759 2 7	4,111 4 –	—	31,613 19 –
(28)	6,450 – –	600 – –	—	42,900 – –

EXERCISE XIII

(1) Balance Sheet total £428,480. (2) Goodwill £20,000; Cash at bank £80,976; Balance Sheet £216,040. (4) Journal entries: Debit Assets, credit Liabilities, Balance due to W. Brown £1,300; Sundry Shareholders to Share Capital £1,700; W. Brown to Share Capital £800. Cash Book entries: *Debit* to Balance £50 and £500, To Sundry Shareholders £1,700: *Credit* By W. Brown £500. (5) Trial Balance total £205,000; Calls in Arrear £17,500; Cash balance £62,500. (6) Balance Sheet £161,687 10s. Forfeited Shares A/c £62 10s. (7) Balance Sheet £324,000; Cash balance £274,000. (8) Profit on Realization £10,125; Goodwill in Company's books £10,125 (£60,000 less £49,875). (9) Cash balance £34,800; Balance Sheet £74,800. (10) Total of Journal £2,000,050. (11) Balance Sheet total £97,000; Calls in Arrear £1,250; Forfeited Shares A/c £2,000. (12) £75 of Capital issued for £70, balance of £5 must be made good from Forfeited Shares A/c; Other method: Premium on Re-issue of Shares £7 10s. (13) Balance carried forward £2,100; Income Tax A/c *Cr.* £455. (14) £500 overpaid on Application A/c to transfer to Allotment A/c; Cash balance £77,365; Forfeited Shares A/c £45. (15) £1,000 of Capital issued for £500, balance of £500 must be made good from Forfeited Shares A/c; Other method: Premium on Re-issue of Shares £250. (16) £750 will be debited to a "Cost of Issue of Debentures" Account, and will appear as a separate item on the assets side of the Balance Sheet. (17) Balance carried forward £1,900; Income Tax A/c *Cr.* £250. (19) Total of Journal £141,500.

	Gross Profit			Net Profit			Approp. A/c Balance			Bal. Sheet total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
(20)	4,341	–	–	1,653	8	–	1,003	8	–	11,568	8	–
(21)	13,683	–	–	3,225	–	–	3,813	–	–	56,101	–	–
(22)	8,944	–	–	2,339	12	6	—			67,124	12	6
(23)	6,110	–	–	1,322	–	–	202	–	–	50,689	–	–

(Dividend of 2½ per cent £1,120, £202 to carry forward.)

(24)	8,509	–	–	4,053	17	–	4,259	17	–	54,010	17	–
(25)	11,191	19	5	2,658	12	1	4,183	–	7	114,471	–	5

(Treat Bad Debts A/c *Cr.* as balance of Old Reserve.)

(27)	8,887	10	–	2,081	–	–	5,381	–	–	74,808	10	–
(28)	6,063	–	–	4,236	–	– (L)	—			50,209	–	–

EXERCISE XIV

These exercises are on Statistical Books, which should follow the models shown in the text.

EXERCISE XV

(2) Total of Balance Sheet £66,899.

EXERCISE XVI

(1) Profit on Realization, Wynne Co. £3,676; Garde Co. £868; New Co., Balance Sheet totals £405,586. (2) New Co., B. S. totals £98,000. (3) A Co., Realization Profit £27,540; B Co., Goodwill £63,140; B. S. totals £115,250. (4) Old Co., Profit on Realization £33,377; Each shareholder receives Investments £3,284, Cash £1,481 8s., Shares £10,000, New Co., Goodwill £29,400; B. S. totals £55,674. (5) B. S. totals £205,000. (6) 1⅜ shares of £1 each for each old £1 share. B. S. totals £392,750.

EXERCISE XVII

(1) Prime Cost of Goods manufactured £44,418 12s. 4d., Cost of Production £53,093 6s. 2d., Profit on Production £5,378 15s. 6d.; Gross Profit on Trading A/c £12,070 16s. 8d. (2) Cost of Pig Iron produced £63,530 17s. 11d.; Gross Profit £68,035 8s. 8d. (3) Spinning A/c *Dr.* £100,950 18s. 4d.; Weaving A/c *Dr.* £40,702 12s. 11d.; Gross Profit £65,114 4s. 4d. (4) Gross Profit £2,178 1s. 3d. (5) Turnover £23,895 10s. 9d. 100%; Prime Cost of Goods sold £11,237 14s. 10d., 47·03%; Carriage In, 7·78%; Wages, 15·00%; Gross Profit £7,214 9s. 7d., 30·19%; Salaries, 2·04%; Commission, 1·37%; Advertising, 1·37%; Discounts, 1·60%; Rent, Rates, and Taxes, 1·57%; Carriage Outwards, 1·48%; Trade Expenses, 1·57%; Bad Debts, 1·37%; Depreciation, 1·61%; Interest on Capital, 1·08%; Net Profit £3,615 10s. 11d., 15·13%. (6) Working Profit £111,573 2s. 9d. (7) Working Profit £16,608 15s. 8d. (8) Working Profit £14,341 15s. 11d. (9) Working Profit £301 5s. 10d. (10) Working Profit £5,189 15s. 4d. (11) Working Profit £469,001 5s. 3d. (12) Working Profit £9,761 4s. 6d. (13) (*a*) Cost of Materials used £11,800; (*b*) Value of Output £41,500; (*c*) Percentage of gross profit on turnover 20·71%. (14) Profit on the £2,000 contract £254. (The office oncost based on the ratio of Wages paid on the £2,000 contract to total wages on all work executed.) (15) Output: 1st year, £29,000 = 100%; 2nd year £20,000 = 100%. Prime Cost of Materials Used: 1st year £18,500; 2nd year £12,000. Average of two years: Output £49,000; Materials Used £30,500.

Items	*1st year*	*2nd year*	*Average of 2 years*
	%	%	%
Materials used	63·80	60	62·24
Wages	25·86	24	25·11
Expenses	6·89	6	6·53
Profit	3·45	10	6·12

(16) Cost of Pig Iron £35,311 = 37s. 11½d. per ton; Gross Profit £21,530; Net Profit £11,432. (17)—

	Year 1	Year 2		Year 1	Year 2
	%	%		%	%
Materials used	61·39	59·09	Gas and Water	0·60	0·66
Wages	20·55	20·89	Travellers	2·00	2·10
Rent and Power	4·55	4·56	Repairs	1·16	1·55
Carriage	1·40	1·36	Insurance	0·21	0·21
Travelling Expenses	0·83	0·85	Depreciation	1·64	1·60
				94·33	92·87

(18) Working Profit £13,399 19s. (19) Cost of Pig Iron £39,409; Gross Profit £13,032; Net Profit £8,426; Balance Sheet total £70,302. (23)—

	Current Year		*Following Year*	
	%		%	
Cost of Material	50	£5,000	48	£5,760
Wages	30	3,000	29	3,480
Discount	5	500	3	360
Expenses	15	1,500	15	1,800
Profit	—	—	5	600
Sales	100	£10,000	100	£12,000

(24) On Turnover: Purchases 45%, Wages 20%, Rent 2%, Rates, Taxes, etc., 1%, Salaries 7·50%, Depreciation 2·50%; Net Profit 22%. (25) Prime Cost of Goods 76·67% and 77·00%, etc.; Gross Profit 2·50% and 7·08%; Net Loss 32·83% and 15·75%. (26) Manufacturing Cost £3,800; Sales £6,000; Manufacturing Profit £2,200; Net Profit £740 or 19·47% on Manufacturing Cost; Or if Discount on purchases is credited to Manufacturing A/c, Manufacturing Cost will be £3,770, Net Profit £740 = 20% on Manufacturing Cost.

EXERCISE XVIII

(1) Write off £110 each year. (2) Rate 25% p.a. (approx.). (4) Amount to write off yearly = £345 12s. 9d. (5) Depreciation Fund annual instalment = £245 12s. 9d. (7) If the decrease is merely temporary, make a note on the Balance Sheet as to their present market value. If it is likely to be permanent, write off, or make a Reserve to cover it. No credit should be taken in the Profit and Loss A/c for appreciation. (8) The two Stocks should be entered in the Trading A/c in a similar manner to Stock of Goods. (12) Write off $\frac{1}{20}$ of Lease each year; write off $\frac{1}{10}$ of Patents each year. (15) Write off (1) £90 a year from original cost of each machine, or (2) 20·5% (approx.) annually from diminishing value of each machine. (17) Balance of old Machinery A/c to write off to Profit and Loss = £2,600; New Machinery A/c *Dr.* £8,850. (19) Balance of Machinery A/c: 1st method £1,747 10s.; 2nd method £1,590 10s. 4d. (20) Cost of Consols = £1,275. (25) 8% off original cost; 9·71% off diminishing annual balance. (26) No; because of the very unequal charge against profits in respect of the same asset, viz. £90 p.a. in the earlier years and £220 p.a. in the later years. As £90 p.a. with interest is sufficient to raise the capital sum, Profit and Loss should not be debited with any more; the payments to the Insurance Co. should be posted to the debit of a Policy A/c to be treated as explained in the text-book. The £2,400 should be utilized to provide £80 a year for 30 years towards the £220.

EXERCISE XIX

(2) Net Profit £735 5s. 1d. (3) Gross Profit £1,704 15s. 2d.; Net Profit £1,066 7s. 8d. (4) Gross Profit £2,037 10s. 10d.; Net Profit £1,220 7s. 5d. (5) Branch A: Gross Profit £2,402 6s. 6d.; Net Profit £1,797 8s. 4d.; Branch B: Gross Profit £2,518 5s. 11d., Net Profit £1,727 4s. 7d. (6) Value of Stock £2,687 15s. (7) Liverpool Branch: Gross Profit £11,550 13s. 10d.; Net Profit £3,423 1s. 3d.; Reading Branch: Gross Profit £9,456 10s. 8d.; Net Profit £2,302 4s. 1d.; Total of Net Profit £3,381 13s. 10d.; Total of Balance Sheet £51,413 0s. 9d. (8) Total of Balance Sheet £15,474 14s. 11d. (9) Gross Profit £1,496 16s. 10d.; Net Profit £766 18s. 10d., Total of Balance Sheet £2,078 7s. 10d. (10) Gross Profits: London £13,576 3s. 4d., Edinburgh £8,586 19s. 3d., Dublin £8,084 10s. 1d.; Net Profits: London £9,132 2s. 11d.; Edinburgh £5,132 10s. 2d., Dublin £5,481 12s. 10d.; Total Net Profit £19,746 5s. 11d.: Finch £9,198 8s. 8d., Green £5,915 9s. 11d.

Roberts £4,632 7s. 4d.; Total of Balance Sheet £76,143 3s. 4d. (11) Gross Profit £1,804, Net Profit £1,033, Debtors at close £1,210. (12) Total Net Profit £22,200: A £5,600, B £5,600, C £6,100, D £4,900; Total of Balance Sheet £80,200. (13) Net Profit £366. (16) Net Profits: K £290, P £324, Q £436. (17) Gross Profits: Head Office £32,974 13s. 11d., Branch A £16,143 6s. 5d., Branch B £6,583 14s. 7d.; Net Profits: Head Office £26,739 16s. 9d.; Branch A £11,609 2s. 9d.; Branch B £3,261 4s. 1d., Approp. A/c £28,784 5s. 8d.; Total of Balance Sheet £131,120 17s. 5d. (18) Factory A/c: Manufacturing Loss £837 11s. 8d., Net Loss £3,354 18s. 5d.; Gross Profits: Branch A £26,819 19s. 7d., Branch B £10,052 2s. 2d.; Net Profits: Branch A £18,937 5s. 4d., Branch B £3,604 3s.; Total of Balance Sheet £148,703 17s. 8d. (19) Gross Profits: Northern Branch £3,943 15s. 10d.; Southern Branch £2,646 12s. 6d. Net Profits: Northern Branch £1,775 13s.; Southern Branch £1,299 1s. 2d. The 2½% Allowance has been taken off the Purchases and Sales respectively. Total Net Profit £1,328 3s. 1d.; Total of Balance Sheet £26,896 15s. 9d. (20) Balance of Factory Current A/c *Dr.* £13,000. (22) Net Profit £1,000. (23) Gross Profit £36,000, Net Profit £30,300; Total of Balance Sheet £87,150. (24) Head Office A/c *Dr.* £54,440; Total of Branch Balance Sheet £58,130. (25) 1431 marks 78 pfennige; 1742 marks 92 pfennige. (26) Loss on exchange 1s. 7d. (27) Profit on exchange 5s. 1d. (29) Profit on exchange 5s. 2d. (30) Profit on exchange £26 0s. 10d. (36) Loss on exchange £24 14s. 7d.; Net Profit £3,510 13s. 6d.; Total of Balance Sheet £11,399 3s. 8d. (37) Profit on Exchange £405 7s. 6d.; Branch Profit £3,247 17s. 6d.; Total of Balance Sheet £25,848 15s. 10d. (38) Loss on Exchange £23 15s. 6d.; Net Profit £767 3s. 7d.; Total of Balance Sheet £11,957 16s. 9d. (39) Loss on Exchange £139 19s. 2d.; Gross Profit £2,388 7s. 2d.; Net Profit £1,224 6s.; Total of Balance Sheet £16,226 7s. 6d. (40) London Office A/c *Cr.* $108,700; Profit on Exchange £181 5s.; Total of Balance Sheet $116,700.

EXERCISE XX

(1) Deficiency £3,245. (2) Deficiency £62 6s. 10d. (3) Deficiency £15,509, 7s. 6d. in £. (4) Deficiency £1,950. (5) Deficiency £1,400. (6) Deficiency £2,675. (7) Deficiency £9,820. (8) Surplus £162 6s. 8d. (9) Deficiency £5,020. (10) Deficiency £3,769. (11) Deficiency £74,178. (12) Deficiency £3,118. (13) Deficiency £2,370. (14) Deficiency £19,600. (15) Deficiency £750. (16) Deficiency £338 15s. (17) Deficiency £1,837. (18) Deficiency £5,084 7s. 2d. (19) Deficiency £650. (20) Deficiency £21,047 10s. (21) Deficiency £21,760 13s. 4d. (22) Deficiency £2,046 13s. 4d. (23) Deficiency £18,700. (24) Deficiency of firm £4,723; Surplus of Alfred £725, of Benjamin £881; Charles' Statement balances. (25) Deficiency £23,291 12s. 3d. (26) Balance due to A £69 5s. (27) Balance £11 14s. 10d. (28) First and Final Dividend of 6s. 4·05d.

EXERCISE XXI

(2) Assurance Fund at end of year £1,640,452; Balance Sheet total £1,651,632. (4) Fund £2,177,835. (6) Fund £1,770,395; Balance Sheet £1,854,750. (8) Fund £3,168,026. (9) Fund £820,000; Balance Sheet £862,000. (10) Fund £3,790,500; Balance Sheet £3,956,200. (11) Fund £4,235,000; Balance Sheet £4,260,000.

EXERCISE XXII

(1) Coke 68·12; Tar 4·71; Sulphate of Ammonia 1·30.

EXERCISE XXIII

(4) Profit £618. (5) Profit £3,208. (13) Balance of Redeemable Dead Rent A/c £666 13s. 4d. (14) Dead Rent unredeemed £300. (15) Balance of Overpaid Royalties A/c £150. (19) Income £259 14s. 8d.; Profit on sale £144 18s. 2d. (20) Income £39 18s. 2d.; Profit on Sale £21 15s. 10d. (21) Income £141 0s. 6d.; Profit on Sale £16 15s. 9d. (22) A B's profit £103 15s. (24) Income £546 3s. 4d.; Profit on Sale £195 14s. (25) Snowflake's profit £284 15s.

EXERCISE XXIV

(10) Double A/c System: Balance of Capital A/c £20,000, Balance Sheet £95,000; Single A/c System: Total of Balance Sheet £255,000. (11) Balance of Revenue A/c, £2,465; Net Revenue A/c £1,565. (12) Balance of Capital A/c £17,000; total of Balance Sheet £47,000. (13) Capital A/c *Dr.* balance £300; Revenue A/c *Cr.* balance £8,674; Net Revenue £4,232; total of Balance Sheet £5,593. (16) Capital A/c *Dr.* balance £366,501; Revenue A/c *Cr.* £218,373; Net Revenue £226,559; Balance Sheet total £563,956. (17) Capital A/c £7,700; Balance Sheet £18,800.

EXERCISE XXV

(2) B/s £22,140,200. (5) Interest *Cr.* £10 11s. 4d.; Balance of A/c *Cr.* £1,262 14s. 8d. (8) Interest *Dr.* £11 12s. 10d.; Balance of A/c Dr. £594 9s. 4d. (9) Interest *Dr.* 8s. 3d. and *Cr.* £6 13s., Balance of A/c *Cr.* £106 4s. 9d. (10) Interest *Dr.* £119 17s. 4d. and *Cr.* £51 7s.; Balance of A/c £381 9s. 8d. (11) 2%. (14) Trial Balance £11,041,250; Balance of Profit and Loss £137,550; Balance Sheet £10,919,000.

EXERCISE XXVI

(2) Tax payable £51 2s. 6d. (3) Tax payable £1 16s. 8d. (4) Tax payable: by Husband £52 19s.; by Wife, £35 6s. (5) Net tax payable £35 10s. 6d.; Reclaim £19 9s. 6d. (6) F. Brightman's Investment will be valued at £763 13s. 0d. Gross, assuming the appropriate rate to be 3s. 4d.; the British Relief being at 1s. 8d. [Students may assume different rates from those above as the exercise gives scope for variation in treatment of the question.] (7) Appropriate Rate 3s. 1d. (8) Appropriate Income Tax Rate 5s. 4½d.; Surtax Rate 12·8d.; Appropriate Rate 6s. 5·3d. (11) Shares of profits to Partners are £2,400 each; Tax payable by Firm £2,067 7s. 6d., chargeable against the partners as follows: B £730 7s. 6d.; J £689 2s. 6d.; K £647 17s. 6d. (12) Tax payable £80 13s. 9d. (13) Assessments 1930–31 £100; 1931–32 £400; 1932–33 £400; 1933–34 nil. (16) (*a*) disallowed, (*b*) no action necessary, (*c*) exclude this in arriving at the taxable profits, (*d*) allowed unless the loss is recoverable under insurance. (17) (*a*) and (*d*) do not affect the account being of a "capital" nature (*b*); would be added back; (*c*) is allowed at 4% on "prime cost" only. (18) *Net Tax* payable £1,332 12s. 6d.; Sur-tax payable £442 15s. 0d. (19) The firm will be assessed on £1,510 subject to the usual abatements and reliefs. (20) Tax payable £74 10s. (21) Total income upon which Sur-tax is charged is £13,150; amount of Sur-tax payable £2,472 5s. 0d. (22) Tax payable £1,608 19s. 6d. (23) £4,316 at Standard Rate. (24) Assessable profit £685, assuming Travelling Expenses to be admissible; Bank Interest being on a temporary over-draft and not "annual" interest; and Income Tax on business premises £55 being calculated at 5s. in the £ in which case the "rent" of premises would be £220.

ANSWERS TO REVISION EXERCISES

EXERCISE I

(3) Total of Trial Balance £1,542 18s. 6d. (4) Total of Trial Balance £25,062.

EXERCISE II

(2) Total of Trial Balance £369 13s. 4d. (4) Total of invoice £512 10s.; Ricksmith, Pigg & Co. *Dr.* £512 10s.; Screening A/c *Dr.* £25; Coal A/c *Cr.* £375, Wagon Hire A/c *Cr.* £37 10s., Carriage A/c *Cr.* £125. (5) Gross Profit £8,266 14s. 5d., Net Profit £3,878 7s. 2d., Balance of Appropriation A/c £3,807 13s. 8d., Smith's bonus £70 13s. 6d., Balance Sheet total £28,126 15s. 8d., Capital A/c: Sykes £9,828 16s. 10d. Simpson £7,920 1s. 10d.

EXERCISE III

(3) Petty Cash items £20, £3 5s., £1 17s. 6d., £2 14s. 9d., and £1 17s. 6d. (5) Total of invoice £57; Ibbetson & Co. *Dr.* £57; Coal A/c *Cr.* £52 10s., Wagon Hire A/c *Cr.* £4 10s.; (*a*) Commission £1 2s. 9d., Interest 14s. 3d., New Bill £58 17s.; (*b*) Commission 15s. 6d., Interest 6s. 6d., New Bill £39 19s. (6) Gross Profit' Factory £3,725, Shop £3,000; Net Profit £3,966, Balance Sheet total £15,073; Capital A/c: Walters £7,942, Smith £4,391.

EXERCISE IV

(2) Total of Trial Balance £839 3s. 11d.; Discount on J. Moulton's Account = £1 2s. 6d.; all these "catchy" points on Discount are explained and illustrated in *Pitman's Dictionary of Book-keeping.* (4) Ashton's Capital £23,760 7s. 8d.; total of Journal entry £47,286 9s. 2d. (6) Net Result = £293 2s. 4d. more profit. (7) Gross Profit £3,824 5s. 10d., Net Profit £913 15s. 5d., Total of Balance Sheet £10,685 8s. 5d.; Capital A/cs: Pearson £6,259 3s. 7d., Macgregor £3,154 11s. 10d.

EXERCISE V

(5) (*a*) Discount £1 14s.; Commission £1 14s.; (*b*) New Bill £173 7s. 4d.; Discount £1 17s. 1d.; Commission £1 17s. 1d. (6) Gross Profit £737 10s.; Shrinkage in weight 227 tons. (7) Average due date = 9th May; Interest £137 10s.; Bill £11,137 10s.; Stamp 112s. (8) 2s. a load. (10) Gross Profit £3,235 3s.; Net Profit £1,277 12s.; Balance Sheet total £10,040 5s. 3d.; Drawing A/cs: MacAdam £258 4s.; Westrum £419 8s.

EXERCISE VI

(3) Amount of Invoice £344 10s.; Discount £2 3s. 1d.; Commission £1 14s. 5d.; Cash £172 5s.; Bill Receivable £176 2s. 6d. (5) Gross Profit £65,180; Net Profit £49,480. (6) Discount £1 2s. 2d. (7) Total of Balance Sheet £10,386. (8) Interest balance *Dr.* 5s. 6d.; Balance of Account *Cr.* £87 14s. 6d. (9) £1,790 on 14th June. (10) Gross Profit £8,799; Net Profit £1,748 10s.; Balance Sheet total £48,261 18s.; Capital A/cs: Walters £20,791 13s., Dove £17,777 5s.

EXERCISE VII

(2) Amount of Invoice £18 15s.; Cash £17 12s. 6d.; Discount £1 2s. 6d.. (5) Profit on Exports £1,190, on Wool £3,850; Loss on Consignments £1,050. Interest on Loans to be debited to the Wool and Consignment A/cs; Net Profit £1,190; Total of Balance Sheet £11,396 14s. 10d.; Capital A/c £1,896 14s. 10d. (6) Discount £2 16s. 3d. (7) Net Profit after adjustments £2,905 2s. 4d. (8) Publishers' profit: 1st year £190, 2nd year £90; Author's profit: 1st year, £100, 2nd year £45. (9) Gross Profit £2,004 0s. 10d.; Net Profit £466 9s. 4d.; Total of Balance Sheet £12,551 4s. 3d.; Capital A/c £10,046 9s. 4d.

EXERCISE VIII

(4) Amount of Invoice £61 13s. 4d.; Commission 12s. 4d.; Discount 15s. 5d.; Bill £63 1s. 1d.; (5) Balance of Adjustment A/c £6,870. (7) £2,685 on 14th June. (8) Discount £1 8s. 2d. (to be borne half each). (9) Balance of Interest £19 16s. 8d.; Lanng's Remittance in settlement £726 7s. 10d. (10) Gross Profit £14,181 10s.; Net Profit £3,780 11s. 7d.; Total of Balance Sheet £30,159 7s. 7d.; Capital A/cs; Skinner £12,828 17s. 10d., Fuller £12,932 15s. 4d.

EXERCISE IX

(4) Net Profit £18 5s. 8d. (7) Net Profit £159. (8) (*a*) Gross Profit £4,072 0s. 1d.; Profit before charging Interest on Capital £1,778 13s. 3d.; Net Profit £1,208 15s. 2d.; Merryweather's Bonus £213 6s. 1d.; Total of Balance Sheet £21,746 6s. 7d.; Capital A/cs: Mildred £9,083 4s. 4d., Merryweather £6,025 13s. 2d.; (*b*) Materials Consumed 56·37%; Wages 23·72%; Gross Profit 21·32%; Net Expenses 12·30%; Net Profit 6·33%; Net Turnover = £19,101 3s.

EXERCISE X

(4) (*a*) Amount of Invoice £478; (*b*) *Dr.* balance £28; (*d*) 3s. (7) Balance of Interest *Dr.* £2 6s. 10d.; Balance of Account *Dr.* £456 10s. 2d. (8) Amount of sight draft £730. (9) Profit and Loss *Dr.* £254 10s. (10) Profit and Loss *Dr.* £192 13s. 4d. (11) Gross Profit £6,126; Net Profit £3,629; Total of Balance Sheet £17,741; Capital A/cs: C. G. £7,178 2s. 6d., S. G. £3,592 17s. 6d.; both Reserves treated as new ones, as all the adjustments appear to have been made.

EXERCISE XI

(5) Net Profit £320. (6) £1,790 on 14th June. (8) Balance of Adjustment A/cs £20,100 12s. 11d. (9) Gross Profit £3,521; Net Profit £597 2s. 11d.; Balance Sheet total £13,648 16s. 11d.; Capital A/cs: Farmer £4,788 15s. 3d., Right £3,887 6s. 8d.; Percentages of Profit on Turnover: Gross 38·07, Net 6·45.

EXERCISE XII

(2) Amount of Bill £354 11s. 6d.; Interest £4 7s. 6d.; Bill Stamp 4s.; Discount on Bill £1 15s. 6d. (3) Profit on part sold £61 5s.; Value of Stock on hand £132 10s. (4) Capital A/cs: Lone *Cr.* £3,360; Stanley *Cr.* £2,640; Maxwell *Cr.* £1,270. (5) Interest due to A 17s. 1d.; Interest due from B £2 3s. 1d.; B owes A £38 9s. 3d. (NOTE. Items on 12th Mar., 17th Mar., 1st Apr., 21st Apr., being unpaid will not, carry interest, but must be entered in the account.) (7) 25% in each case. (9) Excess of Income over Expenditure, £71; Total of Balance Sheet £1,237 10s. (10) Loss on Realization £2,990; A's Capital A/c (after absorbing his loan) is £342 10s. in debit, which A has to make good in order to pay B £1,652 10s., the balance due to him as per his Capital A/c. (12) Gross Profit £12,388 14s. 1d.; Net Profit £1,330 8s.; Appropriation A/c £582 4s. 7d.; Balance Sheet £31,172 9s. 5d.

EXERCISE XIII

(4) Discount on Bill, 2 mos., £4 3s. 4d.; the bill will appear on the December Balance Sheet as a contingent liability. (7) B owes A £1,250, and C owes A £1,250;

total due to A £2,500. (8) Goodwill £42,000; total of Balance Sheet £341,250; Cash Balance £36,250. (9) Profit on Realization £1,200; Cash balance £11,200: A £6,800, B £4,400. (10) Gross Profit £12,000, Net Profit £7,600 (adding tax £25 on to Debenture Interest). (11)—

BALANCE SHEET—LIABILITIES SIDE

Authorized Debenture Stock £100,000.

Debenture Stock issued	£80,000
Premium on Debenture Stock	1,000
Bank Loan	15,000
(Secured by issue of £20,000 Debenture Stock.)	

(14) Four months or $\frac{1}{3}$ of the profit, viz. £1,900, is not available for dividend being earned prior to incorporation; only £3,800 is available for dividend purposes. (15) Gross Profit £22,223 0s. 4d.; Net Profit £11,679 17s. 8d.; Appropriation A/c balance £10,516 14s. 5d.; Balance Sheet total £632,579 19s.

EXERCISE XIV

(2) Gross Profit £3,400: A Dept. $\frac{20}{67}$ or £1,014 18s. 6d.; B Dept. $\frac{18}{67}$ or £913 8s. 8d.; C Dept. $\frac{19}{67}$ or £964 3s. 7d.; D. Dept. $\frac{10}{67}$ or £507 9s. 3d.; Proportions of Expenses (£258); A Dept. $\frac{20}{67}$ or £77 0s. 4d.; B Dept. $\frac{18}{67}$ or £69 6s. 3d.; C Dept. $\frac{19}{67}$ or £73 3s. 3d.; D Dept. $\frac{10}{67}$ or £38 10s. 2d.; Net Profit £1,761: A Dept. £569 18s. 2d.; B Dept. £540 2s. 5d.; C Dept. £477 0s. 4d.; D Dept. £173 19s. 1d. (4) Banker's Discount £9; Interest £5. (5) Venture No. 1: H 40% of £1,000; G and J [illegible] and [illegible] of balance; Venture No. 2: H 45% of £500; G and J [illegible] and [illegible] of balance; Current A/cs: G *Cr.* £985 14s. 4d.; H *Cr.* £775; J *Cr.* £739 5s. 8d. (6) Assuming that the New Company takes over the Creditors, there is a surplus or profit of £11,950, which should be put to a Capital Reserve A/c. This surplus can be used to make good any depreciation of the assets taken over, but is not available for dividend purposes. (9) Total of Trial Balance £112,000. (11) Loss on Realization £600; Net Profit £9,900; Cash paid out: L. Brier £10,590; C. Oke £2,710. (14) Gross Profit £18,562; Net Profit £9,000 2s. 6d.; Appropriation A/c balance £5,890 2s. 6d.; Total of Balance Sheet £127,470 2s. 6d. (£280 Interest on Sinking Fund Investments must *not* be credited to Profit and Loss but to the Sinking Fund A/c, and shown as a debt on the assets side of the Balance Sheet.)

EXERCISE XV

(4) Total of Balance Sheet £130,060 13s. 7d. (5) Profit on No. 1 £1,500; Profit on No. 2 £11,150; about $\frac{2}{3}$ of these amounts should be taken to Profit and Loss, and the other $\frac{1}{3}$ left as a reserve. Depreciation of Plant reckoned at 10%. (7) Gross Profit £19,246; Net Profit £7,112 9s.; Approp. A/c £4,613 9s. Balance Sheet £74,944 9s.

EXERCISE XVII

(5) Balance due from Vendor £3,274 4s. 9d. (6) Net Profit £345. (7) Profit on Joint Venture £4,000; Smith's total profit £3,000; Jones's total profit £2,120. (8) Interest *Dr.* £12 0s. 3d.; 6 months' Bill = £212 5s. 3d. (9) Interest on Drawings: D £11 0s. 10d.; E £9 15s.; F £8 4s. 7d.; Net Profit £2,029 0s. 5d.; Capital A/cs: D £3,626 13s. 1d.; E £2,374 6s. 5d.; F £1,399 0s. 6d. (10) Surplus £34. (13) Loss on Realization £390; Cash balance £2,210; exercise does not state whether Robinson is solvent or not, or what the Debtors realize; it cannot therefore be completed. (17) Gross Profit £44,943; Net Profit £19,291; Approp. A/c £11,775; Total of Balance Sheet £73,516.

EXERCISE XVIII

(4) Interest on £6,000 5s. at 5% at average date of 4 months = £100; each bill = £2,033 8s. 4d. (5) Net proceeds £1,076 17s. 6d. (6) Balance of Sales Ledger Adjustment A/c £2,582. (7) Amount due to P = £1,008 6s. 8d. on Current A/c and £6,554 3s. 4d. on Capital A/c; total £7,562 10s. (8) A's Capital £4,480; B's £3,000. (9) Goodwill £11,000. (11) Gross Profit £10,900; Net Profit £7,066 15s.; Approp. A/c £5,969 17s. 6d.; total of Balance Sheet £58,519 16s. 10d. (12) Net Profit £3,220 19s.; Approp. A/c £2,930 14s. 10d.; total of Balance Sheet £59,492 1s. 11d. (13) Manager's Commission 5% on £1,158 3s. 10d.; Net Profit £1,084 7s. 2d.; Total of Balance Sheet £27,516 18s. 3d.

EXERCISE XIX

(3) Interest £1 5s.; New Bill £101 5s.; due date 21st April. (4) (*a*) By Days, balance of Interest *Dr.* £2 5s. 8d.; Balance of Account *Dr.* £72 5s. 8d.; (*b*) By Months, Interest *Dr.* £2 5s. 6d.; Balance of Account *Dr.* £72 5s. 6d. (5) Total of Balance Sheet £8,929 16s. 9d. (7) Total of Balance Sheet £471,200. (8) Balance due to Vendor £809 8s. 8d. (9) Loss on Realization £1,700; C's Deficiency £816 13s. 4d., to be borne (*Garner* v. *Murray*) $\frac{25}{40}$ A and $\frac{15}{40}$ B; A receives Cash £1,989 11s. 8d.; B receives Cash £1,193 15s. (10) Book value of Assets = £24,850 (25,600–£750); Loss on Realisation £3,800; Net Loss £3,840 10s.

EXERCISE XX

(2) (*b*) Smith's A/c Cash £272, Bad Debts £272. (4) Net Profit: Soap Dept. £5,871 16s.; Scent Dept. £2,968 19s. 2d. (6) Loss on Realization £8,000; Brown receives £9,000; Robinson £8,000. (8) Total of Balance Sheet £84,900. (9) Net Profit £3,239 5s.; total of Balance Sheet £58,512 5s. (10) Gross Profit £21,435; Net Profit £11,155; Approp. A/c £10,555; total of Balance Sheet £199,286. (11) Gross Profit £13,501 8s.; net Profit £6,369 15s. 1d.; Approp. A/c £4,640 10s. 6d.; total of Balance Sheet £71,210 19s. 4d.

EXERCISE XXI

(5) Gross Profit £3,508 9s. 2d.; Net Profit £1,082 8s. 6d.; Approp. A/c £875 7s. 1d.; Balance Sheet £15,292 16s. 7d. (6) Gross profit £1,325; Net Loss £6,664; Balance Sheet £127,601. (7) Gross Profit £12,415; Net Profit £1,786 16s. 4d.; Balance Sheet £97,970.

EXERCISE XXII

(2) Account Sales £8,943; Net Profit £1,496. (3) A receives £4,200, B £2,100. (5) Gross Profit £8,450, Net Profit £2,630, Approp. A/c £2,030, Balance Sheet £51,030. (6) Gross Profit £5,910 11s. 8d.; Net Profit £1,000; Balance Sheet £38,100 16s. 3d. (7) Tin Vein A/c £8,184; Tile Dept.: Net Loss £197, Balance Sheet £34,034.

EXERCISE XXIII

(5) Gross Profit £14,498; Net Profit £12,156; Approp. A/c £2,435. (7) Net Loss, Alm Road £3,040; Net Gain, Beech Road £774. (8) Gross Profit £2,852; Net Profit £522 9s.; Approp. A/c £17 9s.; Balance Sheet £22,862 9s.

EXERCISE XXIV

(6) Furnaces A/c *Dr.* £58,660; Gross Profit £17,986; Net Profit £9,876; Approp. A/c £9,703; Balance Sheet £81,363. (7) Gross Profit £12,700; Net Loss £3,000; Balance Sheet £78,000.

EXERCISE XXV

(1) R.S.A. Book-keeping (Advanced) Examination, 1929, *Question* 2: Balance to carry forward to next year £6,743. *Question* 5: Manufacturing Profit £30,723; Net Profit £15,104; Appropriation A/c Balance £12,854, Balance Sheet Total £244,312. (2) L.C.C. Book-keeping (Senior) Examination, 1929, *Question* 5: Net Profit £28,181; Appropriation A/c Balance £33,774; Balance Sheet Total £377,079.

EXERCISE XXVI

(8) Profit on Exchange £14 0s. 7d.; Gross Profit £3,609 2s. 3d., Net Profit £2,163 3s. 8d., Balance Sheet £6,291 19s. 3d. (9) Deficiency £2,850; 10s. 5d. in the £. (10) Gross Profit £6,337 1s. 11d.; Net Profit £1,434 11s. 3d. (11) Profits: Publishing Dept. £3,280; Supply Dept. £5,030; Net Profit £2,586; Approp. A/c £3,511 7s.; Balance Sheet £36,806. (12) W. Lincoln's liability is £3,054 subject to the usual abatements. (13) Gross Loss £13,307; Net Loss £39,629; Balance Sheet Total £247,174.

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